



2.40

808.5

H19

82x.4

1.2





THE HANDBOOK SERIES

SERIES IV

VOLUME 2

SELECTED ARTICLES ON

CHAIN, GROUP AND BRANCH
BANKING



THE HANDBOOK SERIES

Series I

Birth Control	\$ 2.40
Capital Punishment	2.40
Child Labor	2.40
Closed Shop, 2d ed.	2.00
Commercial Arbitration	2.40
Criminal Justice	2.40
Current Problems in Municipal Government	2.40
Current Problems in Taxation	2.25
Debaters' Manual	1.50
Disarmament	2.25
Evolution	2.40
Fundamentalism vs. Modernism	2.40
Marriage and Divorce	2.40
Modern Industrial Movements	2.40
Negro Problem	2.25
Prohibition; Modification of the Volstead Law.	2.40
Slavonic Nations of Yesterday and Today	2.40
Social Insurance	2.40
States Rights	2.40
Study of Latin and Greek	1.80
Unemployment Insurance	2.40
War—Cause and Cure	2.40

Series II

Vol. 1. Old Age Pensions	\$ 2.40
Vol. 2. A Federal Department of Education	2.40
Vol. 3. China, Yesterday and Today	2.40
Vol. 4. Interallied Debts and Revision of the Debt Settlements	2.40
Vol. 5. Intervention in Latin America	2.40
Vol. 6. National Defense	2.40

Series III

Vol. 1. The Pact of Paris	\$ 2.40
Vol. 2. Compulsory Automobile Insurance	2.40
Vol. 3. Trends in Retail Distribution	2.40
Vol. 4. Law Enforcement	2.40
Vol. 5. Censorship of Speech and the Press.	2.40
Vol. 6. Censorship of the Theatre and Moving Pictures	2.40

Series IV

Vol. 1. Debate Coaching	\$ 2.40
Vol. 2. Chain, Group and Branch Banking	2.40

W55

THE HANDBOOK SERIES

SERIES IV

VOLUME 2

SELECTED ARTICLES ON
CHAIN, GROUP AND BRANCH
BANKING

COMPILED BY
VIRGIL WILLIT, Ph. D.
Assistant Professor, Department of Economics
The Ohio State University



NEW YORK
THE H. W. WILSON COMPANY
1930

Copyright, 1930
by The H. W. Wilson Company, Inc.
All Rights Reserved

Published December, 1930
Printed in the United States of America

CONTENTS

INTRODUCTORY NOTE	9
BRIEF	
Introduction	15
Affirmative	23
Negative	36
Branch and Group Banking	54
BIBLIOGRAPHY	
General References	61
Affirmative References	68
Negative References	72
GENERAL DISCUSSION	
Pole, John W. Statement of the Comptroller of the Currency before Congressional Committee. (1)	79
Willit, Virgil. The Rise of Multiple Banking in the United States. (2)	American Mercury 99
Willit, Virgil. The Case for Multiple Banking Ex- amined. (3)	American Mercury 107
Branch Banking in the United States and Canada. (4)	London Economist 114
Federal Reserve Board. Branch Banking and its Effect in Foreign Countries. (5)	120
Wisconsin. Commissioner of Banking. Early Devel- opment of the Bank Holding Company. (6) ..	124
Anderson, B. M. Bank Failures: Their Causes and Remedies. (7)	Chase Economic Bulletin 125
Federal Reserve Board. Federal Legislation on Branch Banking. (8)	130
Hecht, R. S. The Great Web of Chain Banking. (9)	American Bankers Association Journal 135
Branch, Chain, and Group Banking: December. 1929. (10)	Federal Reserve Bulletin 141
Pole, John W. Bank Failures: 1920-1929. (11) ..	148
Comptroller of the Currency. Number and Deposits of All Banks in the United States, etc. (12) ..	151
American Bankers Association. Economic Policy Comm. Group and Chain Bank Systems. (13)	152

20484

Roll Call of Leading Bank Groups in the United States. (14)	American Banker	153
Number of Banks Operating Branches and Number of Branches in Operation by States, December 31, 1929. (15)	Federal Reserve Bulletin	155
Summary of State Laws Relating to Branch Banking. (16)	Federal Reserve Bulletin	157

AFFIRMATIVE DISCUSSION

Pole, John W. Need of a New Banking Policy. (17)	159
Collins, C. W. Nationwide Branch Banking. (18)	Bankers Magazine 167
Westerfield, Ray B. An Examination of Opposition to Branch Banking. (19)	The Annalist 176
Breckenridge, R. M. Advantages of Canadian System of Branch Banking. (20)	181
Harr, Luther A. Merits of Branch Banking Illustrated by English Experience. (21)	188
Rand, George F. Statement before Congressional Committee. (22)	192
First Bank Stock Corporation. Organization and Functions of the First Bank Stock Corporation. (23)	207
Greene, E. B. Branch Bank Policies of the Cleveland Trust Company. (24)	212
Decker, E. W. Policies of the Northwest Bancorporation in Acquiring Control of Banks. (25)	217
Hendrix, Clyde. Agriculture Needs Branch Banking. (26)	American Bankers Association Journal 219
Neville, J. E. Advantages of Group Banking Summarized. (27)	Commercial and Financial Chronicle 223
Millar, John H. Canadian Bankers Answer: How Does Branch Banking Serve Business? (28) ..	Magazine of Business 227
Chain Banks Won't Wear High Hats. (29)	Business Week 235

CONTENTS

Curtis, J. G. The Turning Financial Worm. (30)	
.....	Nation 237
Young, Roy A. Branch Banking Not Monopolistic. (31)	240
Novins, J. K. Trust Service—State-Wide. (32)	
.....	Burroughs Clearing House 241
Pole, J. W. Branch Banking an Aid to Government Supervision. (33)	243
Young, Roy A. Examination of Branch Banks. (34)	244
Giannini, A. P. Branch Banking Increases Opportunities for Employees. (35)	245
Decker, E. W. and Giannini, A. P. Decentralization of Credit Secured by Multiple Banking. (36)	247

NEGATIVE DISCUSSION

Dawes, Henry M. In Defense of Unit Banking. (37)	249
Comptroller of the Currency. Branch Banking a National Menace. (38)	262
Davison, George W. Banking Evolution in America. (39)	272
.....	Commercial and Financial Chronicle
Anderson, B. M. The Relative Merits of Unit and Branch Banking. (40)	
.....	Chase Economic Bulletin 285
Whipple, Howard. Social Importance of Branch Banking. (41)	
.....	American Bankers Association Journal 289
Sykes, Joseph. Undesirable Effects of Bank Amalgamations in England. (42)	
.....	American Bankers Association Journal 294
Troxell, E. E. And Then—He Went to the Pawnshop. (43)	298
Miller, M. D. Branch Banking and the Small Borrower. (44)	306
Selder, W. D. The Merits of the Unit Bank. (45)	
.....	Commercial and Financial Chronicle 311
Shull, C. G. Unit Banking System Has Not Broken Down. (46)	313

Hazlewood, Craig B. Unit Banking Preferable. (47) American Bankers Association Journal	314
Throp, Willard L. Operating Costs Not Reduced. (48) .. American Bankers Association Journal	315
Murphy, C. D. Business Men Prefer Unit Banks. (49)	Bankers Monthly 317
Bank Holding Companies, Chains and Branches. (50)	Commercial and Financial Chronicle 318
Sykes, Joseph. Larger Banks Not Necessary to Meet Demands of Business. (51)	321
The Federal Reserve System and Branch Banking. (52)	Commercial and Financial Chronicle 321
Throp, Willard L. A Menace to Federal Reserve Control. (53)	 American Bankers Association Journal 324
Comptroller of the Currency. Possible Control of Election of Federal Reserve Bank Directors by Group Banks in Ninth Federal Reserve District. (54)	326
Bone, Roy L. Could National Branch Banking Be Properly Regulated? (55)	 American Bankers Association Journal 328
Hecht, R. S. Branch Banking Not a Remedy for Bank Failures. (56)	 Commercial and Financial Chronicle 330
Sykes, Joseph. The Effect of Branch Banking on Agriculture in England. (57) ..	London Times 332
Beebe, M. P. Results of Branch Banking in Canada. (58) American Bankers Association Journal	332
Nahm, Max B. Bankers or Robots? (59)	334
Anderson, B. M. A Grave Political Danger. (60)	Chase Economic Bulletin 336
Chain Banking and the Business of Investment Houses. (61) ..	New York Journal of Commerce 337
Meyercord, G. R. Branch Banking Needless, Says Manufacturer. (62)	 Chicago Journal of Commerce 339
INDEX	343

INTRODUCTORY NOTE

The banking system exists to serve the needs of business. As business institutions change in size, forms of organization, and methods of operation, the banking system must adapt itself to these changes. For a time the banks may be able to make the necessary adaptations by changes in methods and policies which attract little public attention. But at irregular intervals the need arises for far-reaching and fundamental changes in our banking organization. The banking business is one which partakes of the nature of a public utility and therefore is subject to close government regulation and supervision. Accordingly no major changes can be made in the form of the banking system without governmental sanction. The question of banking reform thus inevitably becomes a matter for political action.

For these reasons banking reform, like the poor, seems to be always with us. Nearly a generation of public agitation and discussion preceded the adoption of the Federal Reserve System. This system was no sooner in operation than the war and post-war periods produced conditions that again brought the functioning of the banking system sharply before the public eye for critical examination. Partly as a result of these conditions, but only partly, some adventurous spirits began to experiment in a bold way with branch banking. This form of banking organization has always existed in the United States to a limited extent and is the predominant form in most other countries. However, it was prohibited by our national banking laws and by the laws of most of the states. The experimenting, therefore, was necessarily confined to the state banks in a few of the states.

In these states branch banking developed so rapidly as to constitute a menace to the national banking system. Scores of national banks were absorbed as branches by the state institutions. Others gave up their national charters in order to avail themselves of the branch banking privileges obtainable under state charters. This trend became so alarming to the national banking authorities that they appealed to Congress to come to the aid of the national banks by allowing them to establish branches. After a struggle in Congress lasting several years the compromise McFadden Act, which grants limited branch privileges to the national banks, was passed in 1927.

In the meantime a new factor had entered the situation, one which in the few years that have elapsed has greatly altered the nature of the problem. This new factor has come to be called "group banking." Group banking is simply the result of the introduction into the banking field of the holding company device, which has been long known and much used in other businesses. Through the holding company a number of banks can be operated as practically one institution. Such an institution is very closely akin to a branch bank. Indeed, the opponents of group banking maintain that it is simply a device for evading the legal restrictions on branch banking.

In spite of much criticism and opposition, group banking is developing with amazing rapidity. At the present time group banks control one-fifth of the bank resources of the country. The movement is not localized, for groups are found throughout the country. A few states have attempted to check it by legislation but as yet no adequate means have been found to stop its growth. Thus group banking constitutes a greater menace to the unit system than does branch banking, which is easily amenable to legislative control. This situation has fortified the advocates of branch banking with a new and powerful argument. Unit banking, they contend, is doomed.

The question no longer is whether we shall have unit or branch banking; the issue lies, rather, between group and branch banking. If the bankers and the public generally should become convinced of the validity of this contention, both Federal and state legislation probably would soon follow which would permit the extension of branch banking.

The battle lines between the three opposing camps are being drawn rapidly for the financial and legislative struggle that is certain to ensue during the next few years. The Banking and Currency Committee of the House of Representatives has already made an extensive investigation of the problem. The relative merits of unit, branch, and group banking, are discussed at every bankers' conference. The question has been made a political issue in some few of the states. Each of the opponents has powerful support. Some of the largest bankers of New York and Chicago are fighting vigorously to save the unit banking system. They are supported by probably the majority of small bankers and business men. The present Comptroller of the Currency, Mr. John W. Pole, who has charge of the supervision of the national banks, and the former Governor of the Federal Reserve Board, Mr. Roy A. Young, are found among the advocates of branch banking. The group bankers are an influential and rapidly growing group.

Since the final solution of the problem will find expression in political action, it is essential that the public should have an intelligent understanding of the points at issue. It is the aim of this volume to enable its readers to arrive at such an understanding by a fair and an impartial presentation of all sides to the controversy.

In the brief which follows the main issue has been drawn between group and branch banking, which are collectively termed "multiple banking," and unit banking. Most of the arguments for branch banking, as an alternative to the unit system, apply equally well to group bank-

ing. In the few instances in which this is not the case, the context will clearly so indicate. A section has been included in the brief dealing with the relative merits of branch and group banking, a matter which is not included in the question as formulated. It has not been found feasible, however, to include a group of readings corresponding to this section of the brief. Most of the discussion on this point has been of an incidental sort which could not well be separated from its context.

The term "chain banking" which is frequently used in current discussions is one to which no definite meaning has become attached. Sometimes it is used synonymously with group banking. At other times it is used to include both group and branch banking. In still other cases, it is used to designate the ownership of a number of small rural banks by a single individual or by a small group of individuals. Because of the confusion arising from these various meanings, the term has been avoided in the presentation of the brief. The term "multiple banking" has been adopted as the inclusive one, to include both branch and group banking.

Both in the brief and in the readings the question of branch and group banking within city limits or metropolitan areas has not been considered to be a point at issue. Intracity branch banking is a distinctly different and decidedly less important question than statewide, regional, or national branch banking. It is not a matter that is at issue in the present controversy and accordingly has not been included within the scope of this volume.

The writer desires to express his grateful appreciation of the invaluable service rendered by many persons and organizations in the preparation of this volume. The suggestions and criticisms of Professor Charles A. Dice, of the department of business organization of The Ohio State University, were of great help in the preparation of the brief. Professor Edison L. Bowers, of the department of economics of the same university, rendered valu-

able service throughout the preparation of the volume by his advice and counsel. Appreciation is also due to Mr. Paul K. Noel of the department of English of the high school of Upper Darby, Pa., for his helpful criticisms in the construction of the brief. The University of Pennsylvania Press and P.S. King and Sons, Ltd., of London, have kindly permitted the use of copyrighted material. Finally the writer wishes to acknowledge his indebtedness to Ruth S. Willit for the many hours of painstaking work which she has given to the compilation of this volume.

VIRGIL WILLIT

The Ohio State University
Columbus, Ohio
September, 1930

BRIEF

The numbers following certain sections of the brief indicate readings which relate to the points involved in these sections. The numbers corresponding to each reading are given after the titles in the Table of Contents.

RESOLVED: *That a system of multiple banking can best serve the needs of the United States.*

INTRODUCTION

I. Definitions.

- A. Unit banking indicates a banking system in which each banking office has its own separate corporate organization and is owned and managed as a separate institution. A unit bank has only voluntary correspondent relationships with other commercial banks.
- B. Multiple banking is a comprehensive term which includes any system of banking in which two or more banking offices, performing the fundamental commercial banking functions of receiving deposits and making loans, are subject to common ownership in whole or in part, and to common control. This ownership and control may be vested in one person or a group of persons, a bank or trust company, a holding company or other corporation. The term thus includes branch, chain, and group banking.
- C. Branch banking indicates a banking system in which two or more banking offices are maintained by the same banking institution. These offices or branches of the parent institution perform all the usual banking functions but do not have a separate corporate organization.

They are managed by a manager appointed by the parent institution.

- D. Chain and group banking are terms that are used synonymously by most writers to include all cases in which two or more separately organized and incorporated banks are subject to common ownership and control. Comptroller of the Currency Pole, however, has made the following distinctions between the two terms:¹

The term "chain banking" has been in use for many years in this country to describe a condition in which a number of banks were owned or controlled by the same individual or by a group of individuals. These so-called chains were situated very largely in the rural districts and the members of the chain were principally small country banks. This condition was and still is quite prevalent in the agricultural regions of the West and South. . .

The term "group banking" is of very recent origin and is being used to describe what appears to be a major movement in our banking system. The principal factor in group banking is that each group is centered around a city or metropolitan bank through means of a holding company, which owns the majority of the stock of each bank, thereby creating a system of banks more or less integrated in management with the central bank of the system. . . The principal difference between a group and a chain is that the group always has some form of central management while the chain has not.

While this is a distinction which it would be well to follow, it should be borne in mind that it is rarely observed. Three main types of chain and group systems are in operation, which may be classified as follows:²
(10)

¹ *Hearings* before the Committee on Banking and Currency, House of Representatives, 71st Congress, 2d Session, under H.R. 141, V. 1, pt. 1, p. 26, 33.

² *Federal Reserve Bulletin*. 16:151-7. April, 1930.

1. Instances in which control is exercised by a holding company, which in most cases has been formed by interests connected with one or more of the principal banks belonging to the system. The usual method by which control is obtained is by exchange of stock of the holding company for at least the majority of the stock of the affiliated banks.
2. Instances in which control is exercised by the principal bank of the system. The control may be secured in various ways:
 - a. The controlling bank may own directly the stock of the affiliated banks.
 - b. The stock of the banks may be owned by an affiliate corporation of the controlling bank. The stock of the affiliate, in turn, may be owned by the controlling bank or may be held in trust for the benefit of its (the controlling bank's) stockholders.
 - c. The stock of the affiliated banks may be held by the stockholders or directors of the controlling bank.
3. Instances in which a controlling or a substantial interest is held in a number of banks by an individual, family, or group of individuals.

II. Present legal status of branch, chain, and group banking.

A. Branch banking. (8, 16)

1. By national banks.
 - a. A state bank which possesses branches may retain them if it is converted into a national bank.
 - b. A national bank may retain and

operate any branches possessed by a state or national bank which it absorbs.

- c. Under the McFadden Act of 1927 intracity branches may be established with the permission of the Comptroller of the Currency, subject to the following restrictions:

- (1) Branches may not be established in those states which do not allow the state banks to have branches.
- (2) No branches may be established in cities of less than 25,000 population.
- (3) One branch may be established in cities of from 25,000 to 50,000.
- (4) Two branches may be established in cities of from 50,000 to 100,000.
- (5) With permission of the Comptroller of the Currency, any number of branches may be established in cities of more than 100,000 population.

2. By state banks.

- a. Nine states permit state-wide branch banking.
- b. Ten states permit branch banking within limited areas.
- c. Twenty-two states prohibit branch banking. In eight of these states, however, branches exist which were established prior to the prohibitory legislation.

- d. Seven states have no legislation regarding branch banking. In two of these states branch banking is permitted within restricted areas.
 - 3. Within the Federal Reserve System.
 - a. National banks may operate within the Federal Reserve System any number of branches that they are permitted to possess under the National Bank Act.
 - b. State banks which are members of the Federal Reserve System are subject to the following provisions relating to their branches:

Agree.

 - (1) Any state member bank which on February 25, 1927, (the date of the McFadden Act), had established and was operating a branch or branches in conformity with the state law is entitled to retain and operate such branches while remaining a member of the Federal Reserve System, regardless of the number or location of such branches.
 - (2) No state bank may become or remain a member of the Federal Reserve System except upon relinquishing any branch or branches established after February 25, 1927, beyond the limits of the city, town or village in which the parent bank is located.
- B. Group and chain banking.
- 1. National legislation. There is no national legislation which restricts in any way any

person, group of persons, or corporation from obtaining ownership and control of two or more banks.

2. State legislation. Nineteen states have adopted laws which restrict or regulate the ownership of banks by holding corporations.³ In some states these laws were passed for the direct purpose of curbing group and chain banking. Most states also prohibit their commercial banks from owning stock in other banks.⁴

III. Extent of branch, chain, and group banking in the United States. (9, 10, 13, 15.)

A. Growth and extent of branch banking. In 1900 there were only 60 bank branches in operation; in 1920 there were slightly more than 1000. At the end of 1929 822 banks were operating 3,547 branches in 29 states and the District of Columbia. These banks and their branches held more than 40 per cent of the total loans and investments of the banks of the country. Two-thirds of the branches were in five states, California, New York, Michigan, Ohio, and Pennsylvania. Of the total number, 2,432 were home city branches and 1,115 were located outside the home city of the parent bank. There were 448 banks operating only one branch and only 59 banks operating more than 10 branches.⁵

B. Growth and extent of chain and group banking. During all our banking history it is probable that there have been many cases in which one person or a group of persons have controlled a number of banks. Holding corporations for banks were known at least as early as

³ *Hearings*, Op. cit. V. 1. pt. 4, p. 457.

⁴ *Ibid.* V. 1. pt. 6, p. 595-7.

⁵ *Federal Reserve Bulletin*. 16:151-7. April, 1930.

1903.^{*} The Federal Reserve Board made its first studies of chain banking in 1922. No comprehensive statistics of chain and group banking, however, were compiled until 1929. At the end of that year the reports of the Board showed that there were 287 groups and chains (including all cases in which 3 or more banks were subject to common ownership and control), involving 2,103 banks, with total loans and investments of \$11,200,000,000. Thus the groups and chains contained about 8 per cent of the banks and about 18 per cent of the total bank loans and investments. The branch, chain, and group banking systems together had more than 51 per cent of the total loans and investments of the banks of the country.[†]

- IV. The problem and the issues involved. Multiple banking may be either chain, group, or branch banking. Chain banking as it is usually practised has no advantages over unit banking and has not been proposed as an alternative to the present system. So the chief issue lies between group and branch banking, on the one hand, and unit banking, on the other. There is also a subsidiary issue as to the relative merits of group and branch banking. In this discussion the terms group and branch banking are to be understood to apply to institutions which have branches or affiliate members beyond the limits of the city in which the parent institution is located and the contiguous suburbs thereof. The merits of intracity branch and group banking are not involved in this presentation. The immediate issues which are raised by the general problem are:

^{*} "Holding Company in Banking," by R. A. Lewis. *American Bankers Association Journal*, 20:255-6+. October, 1927.

[†] *Federal Reserve Bulletin*. 16:153-7. April, 1930.

- A. Should the branch banking provisions of the National Banking Act be liberalized? If so, to what extent?
 - 1. Should national banks be allowed to establish branches anywhere within their home state in those states where state banks are permitted to do so?
 - 2. Should national banks be allowed to establish branches anywhere within their home state, regardless of the law applying to the state banks?
 - 3. Should national banks be permitted to establish interstate branch systems? If so,
 - a. Should the branches be confined to the Federal reserve district in which the parent bank is located?
 - b. Should the branches be confined to trade areas, to be determined by careful study and investigation, as recommended by Comptroller of the Currency Pole?^a
 - c. Should there be no restrictions whatever placed upon the location of the branches?
- B. Should the branch banking provisions of the various state banking codes be liberalized to:
 - 1. Permit state-wide branch banking by the banks chartered by the respective states?
 - 2. Permit banks chartered in other states to establish branches within the state and to permit its own banks to establish branches in other states, thus making possible interstate branch banking by state banks?
- C. Should the national and the state governments by whatever means are lawful and expedient stop the further progress of branch and group banking?

^a Annual Report of the Comptroller of the Currency, 1920, p. 5.

AFFIRMATIVE

I. Fundamental changes are needed in our present unit banking system.

A. The great number of bank failures in recent years indicate that something is seriously wrong with the system. (1, 7, 12, 17) (1, 5, 9, 10)

1. During the period 1921-1929, there were 4,985 banks, with net deposits of \$1,480,000,000, which failed. This means that approximately one bank out of every six that was in operation in 1921 failed during this period. In six states the number of failures was from 20 to 30 per cent of the number of banks in operation; in eight states, from 31 to 50 per cent; in one state, 57 per cent; and in one state, 72 per cent."

2. In Canada during this same period there was only one bank failure. As Canada was confronted with the same economic conditions as the United States, this difference in the number of bank failures must be due to differences in the banking systems of the two countries.

B. The losses and declining profits of banks which are still in operation are further evidence that our banking system is not in a healthy condition. (17) (14)

1. "Taking 1927 as a typical year, 966 national banks operated at a loss, and an additional 2000 earned less than 5 per cent. In other words, about 38 per cent of all national banks earned for the year 1927 less than the yield of a high-grade security. It is well known that the earning capacity of the general run of country

national banks is certainly not below that of the state banks similarly situated.¹⁰

C. Changes in our economic structure have made it impossible for local independent banks to serve adequately the needs of business; for (1, 2, 4, 18, 22, 28) 1, 2, 4, 15, 18, 21

1. Large scale business demands large scale banks. Mergers, combinations, and chains on an inter-state and even nation-wide scale predominate in business today. These gigantic institutions need and demand services that can not be supplied adequately by local unit banks, such as:

a. The granting of large loans. As our corporations grow through mergers and the development of chains and branches, their need for credit increases. Banks can meet this increased demand only by growth similarly attained. Unit banks drawing their deposits largely from their local communities can not attain the size necessary to meet the demands of corporations doing a nation-wide business. As the demand for commercial credit becomes concentrated in a relatively few hands, the supply must likewise be concentrated.

b. The financing of foreign trade. The United States has been handicapped in the development of its export business because of the poor facilities our banks offer for aiding and financing such business. The relatively small size of our banks, which is due to the unit system, is largely respon-

¹⁰ John W. Pole, Comptroller of the Currency. *Hearings*. Op. cit. V. 2. pt. 9. p. 1022.

sible for this. Only the very largest banks can employ the experts and maintain the foreign organization that the financing of foreign trade necessitates. Independent banks doing primarily a local business can not meet the demands of present day business in this field.

D. A critical situation exists in small city and village banks because of the great loss of business suffered in recent years, due to the facts that: (1, 2)

1. Chain stores and mergers in the industrial fields have absorbed or driven out thousands of small businesses, thus depriving the banks of their loans and deposits.
2. The land banks, agricultural credit societies, and cooperative marketing organizations have deprived the rural banks of a large volume of business.
3. Many people who formerly left their money on saving deposit in the banks are now investing it in securities.

E. A system of local independent unit banks is inherently unsound; for (1, 3, 17, 18) 1, 3, 14, 15,

1. It results necessarily in a great number of small banks, since every community which can support a bank, and many which can not, must have its own bank.
2. The small size of these banks renders them inherently unsound: for
 - a. The income of many of them is too small to employ capable, experienced bankers as managers.
 - b. The small amount of funds which they possess makes it difficult to

obtain proper diversification in loans and investments.

- c. A few bad loans or an embezzlement may force a small bank into bankruptcy.
 3. The solvency and liquidity of unit banks is too much dependent upon the economic conditions of their own communities.
 - a. This renders them liable to failure because of purely local and temporary conditions.
- II. Multiple banking can largely eliminate the causes of bank failures;¹¹ for
- A. The widespread industrial and geographical diversification of the assets and liabilities of group and branch banks prevents them from being forced into bankruptcy by local factors and conditions. (1, 4, 17, 18, 20, 21, 26)
 - B. The size of the banks makes it possible for them to absorb heavy losses without impairing their solvency.
 - C. Multiple banking results in better bank management; for (18, 20, 21, 28)
 1. The large size of the banks makes it possible for them to employ the best of management.
 2. All the branches and members of groups receive the benefit of the superior managerial ability of those at the head of the institutions.
 3. Bankers in a multiple banking system receive careful and thorough training before being placed in positions of responsibility.

¹¹ Legally it would be possible for a member bank of a group to fail without involving other members of the group. However, it is scarcely conceivable that a group would permit one of its members to fail if the group as a whole was solvent.

- a. In Canada, England, and other branch banking countries young men who are entering banking as a career are given careful training in the different departments and are transferred from one branch to another to give them broad experience. They receive promotion as they show their fitness for it. Our small unit banks can not provide this valuable training and selective process.

D. The experience of other countries shows that failures are very rare in a multiple banking system. (21, 28) 17, 21

- 1. In the post-war period, when the United States has had more than five thousand bank failures, England and Canada with their branch banking systems have been almost entirely free of failures, in spite of their more distressing financial and economic conditions.

III. Multiple banking can better promote the sound economic development of the country; for

A. It facilitates the distribution of the bank funds of the country to those sections where they are most needed; for (1, 3, 18, 19, 20, 26) 1, 3, 15, 16, 17, 19

- 1. Funds can be quickly and easily transferred from those sections which have a surplus, either as a result of seasonal or of more or less permanent conditions, to other sections where there may be a scarcity. The transfer may be made simply by bookkeeping changes in the accounts of the branches or group banks in the two sections.
- 2. Since the managers of a group or branch institution are in close touch with all their

members or branches, they know at once when conditions of surplus or of scarcity arise and can shift the funds accordingly.

- a. This transference of funds tends to equalize the demand for and supply of funds throughout the country and thus to make interest rates uniform and stable.
 - b. It reduces the interest costs in the newly developing sections of the country, in which capital is usually scarce, and thus promotes their development.
- B. It makes possible a sounder economic policy in the extension of credit; for (18, 20, 29)
1. The widespread system of branches or group members gives the multiple banker a comprehensive and intimate knowledge of general business conditions.
 2. The training and experience of the multiple banker gives him a better understanding of fundamental economic conditions and greater ability to adapt his banking policies to meet varying conditions.
 3. The managers of multiple banks are not influenced by personal friendship or local prejudice in making loans. In branch banking institutions, all loans of considerable size are passed upon by the head office, where they are judged strictly on their merits.
- C. It is better able to aid in the development of new communities and territories; for (18, 20, 21, 28)
1. By the establishment of a branch, complete banking service can be offered a new community long before it is able to support an independent bank; for

- a. The branch has no capital stock and its operating expenses are less than those of a unit bank.
 - b. A branch may be operated for a number of years at a loss, in the expectation of building up a profitable business for the future. A unit bank is not likely to be organized unless there is expectation of a profit in the very near future.
2. Outside capital may be made available for the new community by drawing on the surplus funds which may be held by branches or group members in the more developed sections of the country.
 - a. The frequent assertion that multiple banking will result in the concentration of the liquid capital of the country in the great financial centers, there to be loaned to the large corporations and speculators, is not true. Such a policy, if adopted, would quickly result in much lower interest rates in the financial centers than in other places. Under a multiple banking system this would at once bring about the shifting of funds away from these centers. In Canada the complaint has been that the branch banking system has deprived the industrial East of funds for the benefit of the agricultural West. What has actually occurred is that the supply of funds has been equalized between the two sections.
3. Because of their wide contacts and broad training multiple bankers are better able to judge what industries are best adapted

to a community and therefore deserving of financial support.

- a. Contrary to the claims often made by opponents of multiple banking, group and branch bankers have as much reason to be interested in the development of the communities in which they operate as do unit bankers. The success of multiple banks is as much dependent on the prosperity of their customers as is that of unit banks and therefore they are as much concerned in promoting the economic interests of their customers and communities as are the latter.
- D. Multiple banking results in improved financial standards and practices in general business; for (29)
1. Multiple bankers are more likely to be familiar with such practices and standards than are independent unit bankers and therefore are better able to advise their customers concerning them.
 2. Multiple banks because of their widespread operations can depend less on personal factors in making loans and therefore must insist on their borrowers giving evidence that they are maintaining themselves in proper financial condition by;
 - a. Furnishing satisfactory periodical financial statements.
 - b. Paying off their loans completely at least once a year.
 3. The observance of such conditions as a prerequisite for securing credit improves the financial standards and aids greatly in maintaining the solvency and liquidity of business institutions.

IV. Multiple banking can render more efficient service to the banking public; for

A. Multiple banks, wherever located, can render to their customers services that at present can be secured only from the largest city banks; such as (17, 18, 20; 22, 27, 28, 32) 14, 15, 16, 18, 20, 2

1. Trust services, both to corporations and individuals.
2. Granting loans to large borrowers whose credit needs can not be met by a small unit bank.
3. Expert investment advice and service.
4. Obtaining and furnishing credit information.
5. Advice and information on general business policies.
6. Foreign trade and foreign travel information and service.

B. Multiple banking increases the keenness of competition between banks, which leads to cheaper and more efficient service, for (2, 4, 28) 3, 4, 21

1. It is well known that large business organizations, such as the chain stores, compete more vigorously with each other than do the local independent concerns.
2. Experience in other countries has shown that the same thing is true in the banking field.

V. Multiple banking would result in a desirable decentralization of financial power and control; for

A. At the present time a very few large cities, such as San Francisco, Chicago, and especially New York, control the finances of the country, because of the large size of their financial institutions. (1, 36)

B. By branch and group banking, financial insti-

tutions would be developed in the various sections of the country which would be strong enough to render these sections largely independent and self-sustaining in financial affairs; for (1, 36)

1. The size and diversification of the resources of these banks would free them from dependence on other financial centers.
 2. The size of these banks would enable them to meet the needs of the largest borrowers, thus making it unnecessary for such borrowers to secure their loans in larger cities, as many borrowers are forced to do under the present system.
 3. These banks would have affiliated with them investment institutions which would be of sufficient size to serve adequately the largest corporations within their territory, thus making it unnecessary for them to float their securities through investment houses in the larger financial centers.
- C. The limited extent to which multiple banking already exists in the United States proves that it does bring about such decentralization; for (36)
1. The development of multiple banking in California, the Northwest, and other sections has greatly increased their financial independence of Chicago and New York.
- D. Such decentralization is desirable; for
1. It reduces the concentration of money and banking power, which is dangerous to the financial stability of the country.
 2. It is in harmony with the fundamental American political and economic ideal of the greatest possible amount of local independence.

VI. Multiple banking benefits both bankers and bank stockholders; for

- A. It furnishes young men in the banking field the best of training, as pointed out in II-C-3, above. (20, 21, 28) 14, 17, 21
- B. It increases the opportunities of advancement for them. (20, 21, 22, 26) 14, 17, 18, 19
- C. It benefits the owners of bank stock; for (18, 21, 22, 25)
 1. It increases bank profits by;
 - a. Reducing operating expenses.
 - b. Increasing income.
 - c. Reducing losses.
 2. It increases the market value of the stock because of:
 - a. The increased profits earned.
 - b. The wider market which the stock has.
 - (1) In the formation of a group or branch institution the stock of the absorbed banks, which usually has only a local market, is generally exchanged for the stock of the parent bank or holding company, which has a much wider market.
 - c. The greater safety as an investment which the stock possesses; for
 - (1) The possibility of the failure of the group or branch institution is much less than that of the unit bank.

VII. Multiple banking results in increased efficiency and economy of bank operation; for

- A. The internal organization and functioning of the banks is improved by the supervision of the parent institution. (22, 23, 24)

- B. Expenses are reduced by the centralized purchase of equipment and supplies. (22, 27)
- C. The banks' funds are used more efficiently and profitably; for (22, 23)
 - 1. Investments in securities are made by highly trained experts, thus securing both safety and a high rate of yield.
 - 2. Less cash on hand needs to be held, thus increasing the amount available for loans and investments; for
 - a. Since an individual bank or branch can always obtain cash when needed from other members of the system, less needs to be kept to meet possible emergencies.
 - 3. All of the bank's funds can be used in the most profitable way at all times; for
 - a. Many small bankers with their limited training do not know how to use most profitably the funds which they can not lend in their own community.

VIII. Multiple banking facilitates government supervision and examination of banks; for

- A. The improved banking conditions and practises that are produced result in less work and trouble for the bank examiners; for (1, 33, 34)
 - 1. It is the poorly managed and the weak banks that require the most attention and supervision.
- B. In England, Canada, and other branch banking countries, experience has shown that it is unnecessary for the government to conduct bank examinations; for
 - 1. The able management and inherent soundness of the branch banking systems has eliminated the necessity for them.

- C. The adoption of uniform accounting methods in all the branches of a bank or members of a group facilitates the work of the examiners.
- D. The arguments of the opponents of multiple banking regarding the difficulty of examinations under such a system are not valid;¹² for
 - 1. The examination of groups which includes both state and national bank offers no great difficulty; for
 - a. Such examinations are being made satisfactorily at the present time by cooperation between state and national examiners.
 - 2. Simultaneous examinations of all the branches of a bank or members of a group are not necessary; for
 - a. The experience of the national and of various state banking departments has shown that searching and comprehensive examinations of branch and group banks can be made without being carried on simultaneously.
 - b. City clearing house examiners, whose examinations are the most thorough and detailed of all, usually do not examine all the branches of a given bank simultaneously.

IX. Multiple banking facilitates the operations of the Federal Reserve System; for

- A. The success of the Federal reserve banks in carrying out their policies depends largely upon the voluntary cooperation of their member banks and the less the number of banks, the easier it is to secure this cooperation.

¹² See *Hearings*, Op. cit. V. 1. pt. 1. p. 28-32; 68-70; V. 2. pt. 13. p. 1698-1703.

- B. If it becomes necessary for the Federal reserve banks to enforce certain policies, it can be more easily done with a small number of large banks than with a multitude of small ones.
 - 1. For example, if the Federal reserve banks desire to restrict the amount of credit granted to the banks which are lending on the call loan market for speculative purposes, as they did during 1929, their problem is much more simple if they have to deal with only a small number of banks ; for
 - a. It can be more easily determined which banks should have their Federal reserve credit restricted.
 - b. Attention and effort can then be concentrated on these few banks instead of being scattered over hundreds.
- C. The experience of other countries shows that multiple banks strengthen the central bank of a country ; for
 - 1. The Bank of England rose to its present position as the foremost central bank in the world while banking in England was being concentrated in a few large branch systems. The central banks of other European countries have attained to impregnable positions of power and influence in the midst of branch banking systems.

NEGATIVE

- I. Fundamental changes in our present system of unit banking are not needed ; for
 - A. It has proven through years of experience to be a success ; for
 - 1. It has made possible the unparalleled settlement and development of the United States.

2. It has enabled the United States to become the foremost industrial nation of the world.
 3. By its aid this country has become the greatest creditor nation in the world.
 4. It enabled the United States alone of all the great nations to finance the World War without departing from the gold standard.
 5. It has fostered the economic democracy and the individual initiative that is essential to social, political, and economic progress. It has aided in maintaining a population free economically from domination by a few powerful interests.
- B. Recent economic events and developments have produced no conditions which necessitate fundamental changes; for (7, 37, 40, 45, 46, 50, 51)
1. The increase in the size of corporations in commerce and industry does not demand a departure from the unit banking system; for
 - a. Large corporations today borrow much less than formerly from commercial banks, as they are financing themselves from their own surplus funds and by the sale of securities.
 - b. If a corporation does find that because of its increased size it occasionally desires to borrow more than its bank can lend, it can easily split the loan between two or more banks. Many corporations prefer to borrow from a number of banks, so as not to be dependent entirely upon any one.
 - c. In recent years mergers between banks in the same city, have produced

many banks which are comparable in size with the largest corporations in other fields of business.

2. The bank failures that have occurred since 1920 do not furnish sufficient reason for abandoning the unit banking system; for
 - a. These failures have been due primarily to agricultural and not to banking conditions. The banks have failed simply because the farmers were unable to repay their loans.
 - b. The real remedy for these failures lies in the stabilization of agriculture and not in tampering with the banking system. To attempt to prevent them by changing our banking structure would be attacking the symptoms and not the cause of the trouble.
 - c. The importance of the bank failures since 1920 has been overemphasized; for
 - (1) The losses to depositors have amounted approximately to only six-tenths of 1 per cent of the total deposits of the banks of the country.¹³
 - (2) The average loss suffered by the depositors in failed banks has been approximately only \$47.¹⁴
- C. The unit banking system by virtue of the Federal Reserve System and of correspondent relationships between banks already possesses many of the advantages claimed for multiple banking; for (37, 38, 39, 40)

¹³ Total deposits of all banks in the country on June 30, 1929, were \$57,910,641,000. The deposits of banks that suspended from Jan. 1, 1920, to Dec. 31, 1929, were \$1,721,402,000, of which only about 20 per cent was ultimately lost.

¹⁴ *Hearings*. Op. cit. V. 2. pt. 12. p. 1572.

1. The present system furnishes a highly satisfactory degree of mobility of bank funds; for
 - a. The Federal reserve banks pool the reserve funds of the member banks and this pooled fund can be drawn on by any member bank in case of need. Further, the funds of any Federal reserve bank can be drawn on by any other Federal reserve bank if necessary, so that nation-wide mobility results.
 - b. By deposits and loans between correspondent banks, funds can be easily and quickly shifted to the points where they are most needed.
 - c. Bank acceptances and commercial paper also furnish efficient means by which bank funds can be transferred from one section to another.
2. A small unit bank can obtain from its city correspondent bank most of the services that a branch or group bank can obtain from its parent bank; for
 - a. The large city bank will furnish expert investment advice and service to its correspondents and to the latter's customers.
 - b. It will make available to its correspondents and their customers its extensive credit service and information.
 - c. It will make loans to its correspondents when needed.
 - d. The requirements of large borrowers who desire to borrow more than the local bank can safely or legally lend

- can be satisfactorily met by dividing the loan with the city correspondent.
- e. The city bank will furnish to its correspondents advice and information on any matters of bank management and policy.
- D. Certain improvements that can be easily made in our present banking system will meet all valid criticisms that can be made against it. These improvements are: (37, 39)
- 1. Reducing the number of small weak banks by:
 - a. Merging banks within the same city or town, thus producing larger and stronger independent banks. This movement is already taking place on a large scale.
 - b. Elimination through absorption by larger banks in near-by cities or towns, of banks in communities which are not large enough to support an independent bank.
 - (1) Automobiles and good roads have removed the conditions which formerly made such banks necessary.
 - 2. Exercising greater care in chartering new banks.
 - a. The excessive number of banks which exist in some sections could have been easily prevented simply by the refusal of banking authorities to charter a bank where it was not needed. There has been a serious lack of cooperation between state and national authorities in the chartering of new banks. Hereafter no banks should be chartered

unless there is a clear and definite need for them.

3. More frequent and thorough bank examinations in those states in which they are unsatisfactory at present.
 - a. In the states of the Middle West, where the greatest number of failures occurred, there was one examiner for every eighty banks; in New York, where there were very few failures, there was one examiner for every seven banks.¹⁵ Undoubtedly the difference in the frequency and thoroughness with which the examinations could be conducted was a factor in explaining the number of failures.
4. Development of closer and more intimate relationships between country banks and city correspondents.
 - a. Many banks have failed to take full advantage of the services which they may secure from their correspondents.
5. Formation of regional and county clearing house associations and credit bureaus.
 - a. These associations, which have proven their value in many sections, enable their members to cooperate in many ways to increase their earnings and to prevent losses, and thus to maintain their solvency.¹⁶

II. Multiple banking does not furnish a guarantee against bank failures; for

¹⁵ *American Bankers Association Journal*. 22:437. October, 1929.

¹⁶ See articles "Unit Banks Must Unite," by S. L. Cantley. *American Bankers Association Journal* 22:353. October, 1929; and "Regional Cooperation Pays Dividends," by W. L. Brooks. *Ibid.* p. 354.

- A. It can not remove or prevent the fundamental causes of failures, which are bad business conditions and poor or fraudulent management. (7, 45)
 - B. Bank failures have been numerous in multiple banking systems. (10, 40, 56)
 - 1. In 1923 the Home Bank of Canada, with 78 branches, failed. The Merchant's Bank, with 400 branches, and the Bank of Hamilton were saved from failure only by amalgamations with other banks.¹⁷ In 1922 occurred the failure of the great Italian bank, the Banca Italiana di Sconto, with 190 branches. In 1893 Australia was shaken by the failure of 13 branch banking systems with \$500,000,000 of deposits.¹⁸
 - 2. Failures have been very numerous among the chain, group, and branch banks in the United States. A total of 226 banks with deposits of \$102,000,000, reported as belonging to 50 different chains and groups suspended operations during the nine year period, 1921-1929. During the same period 41 branch bank systems, with deposits of \$49,000,000, suspended operations.¹⁹
- III. Multiple banking retards the economic development of the country; for
- A. It greatly handicaps the development of new industries and the rise of new business firms; for (38, 39, 41, 42, 43, 44, 49, 58)
 - 1. The amount of routine and red tape necessary in the conduct of business increases

¹⁷ *Fortune*, 1:160-70. February, 1930; Ostrolenk, Bernhard. *The Economics of Branch Banking*. p. 153-6.

¹⁸ *Fortune*, *ibid*

¹⁹ *Hearings*. Op. cit. V. 1. pt. 4, p. 457, 462.

in geometric proportion with the size of the institution. The manager of a group or branch bank is governed by rules and regulations, with little left to his discretion. As a result.

- a. It is difficult for a young man starting out in business with little capital to secure credit.
 - b. It is difficult for a new industry to obtain financial aid from a multiple bank.
- B. It neglects the small depositor and the small borrower; for (41, 42, 43, 44)
1. Such accounts usually are not profitable and therefore are not encouraged by the multiple banks, which lack a personal interest in their customers. American unit bankers, however, have encouraged the smallest deposits and have met the needs of the smallest borrowers.
 2. The small borrower in many cases is not able to furnish the collateral security which the multiple bank demands. The unit banker, who is free to depend upon his own judgment, is more likely to grant an unsecured loan.
- C. It deadens the spirit of civic pride and enterprise which has built our great cities and towns; for (39, 41, 43, 44, 49, 58)
1. The multiple bank is not interested in building up the community in which it exists to the same extent that the unit bank is. The multiple bank will lend its funds in the highest market regardless of the needs of the community in which those funds originated. The manager of a multiple bank, who is simply the em-

ployee of a distant corporation, can not have the personal interest in the community and the understanding of its needs that the unit banker does.

- a. It is recognized that when a number of banks are formed into a group the local management is usually retained at first. But there can be no doubt that as these groups develop they will adopt the same managerial policies as the branch banks. As the original local officers retire, they will be replaced not by other local men but by especially trained employees of the group organization.
 2. All loans above a certain small minimum must be referred to the head office or bank, where they are passed upon by men who probably have no personal knowledge of or interest in the community whatever.
- D. Under multiple banking the smaller towns and cities are deprived of bank credit for the benefit of the large financial centers; for (4, 41, 42, 43, 44)
1. Whenever there is a scarcity of funds the banks find it to their advantage to take care of their large borrowers first and to neglect the small ones. In multiple banks this results in depriving the business men in the small towns and cities of needed credit and lending it to the large corporations and speculators.
 2. When money rates are high the multiple bank drains funds from the smaller communities to pour into the call loan and speculative markets, in order to secure the high interest rates paid there; for,

- a. Because of the lack of personal interest in the borrowers and in the community in which it operates, the multiple bank, unlike the unit bank, does not feel under obligation to provide first of all for the needs of local borrowers.
- E. The deadening effects of multiple banking upon the economic development of a country are well proven by the experience of Canada; for (4, 47, 58)
 1. In spite of rich natural resources and an intelligent and enterprising people, that country has lagged far behind the United States in its economic development. This difference is accounted for very largely by the differences in the two banking systems. Canada's system of branch banking has handicapped her development very greatly.
- F. Multiple banks cannot readily adapt themselves to changing economic conditions; for (40, 42)
 1. In banking, as in other fields of business, increased size necessitates more and more dependence on rules and regulations in the conduct of business. This results in a relative fixity of operating policies.
 2. Multiple banking accentuates the fluctuations of the business cycle; for
 - a. When a business depression threatens, multiple banks may restrict credit generally, even in those sections and to those industries which are not yet affected, and thus hasten the decline.
 - b. Multiple banking retards the recovery of business from depression. Recovery usually begins in "spots" but the uniformity of credit policy main-

tained by multiple banks does not permit special credit consideration being given to those industries and regions where recovery first shows itself.

3. After a period of inflation multiple banks may retard the liquidation that is necessary to place business once more on a sound foundation. Japan was forced to endure years of business stagnation because of the vain efforts of the great banks of the country to ward off the inevitable post-war crisis that finally came in 1927. In the meantime, business in the United States had taken its losses in 1920-1921 and had started on an unprecedented period of prosperity. Fortunately unit banks are not strong enough to keep an unhealthy business situation from collapsing when it reaches the point where it should collapse.

IV. Multiple banking is opposed by the great majority of bankers and business men. This is evidenced by the facts that (16, 49, 50)

- A. The American Bankers Association, representing the bankers of the nation, at its annual convention in 1922 declared itself opposed to branch banking.²⁰ In 1930 it modified this position only slightly by recognizing that under some conditions it might be desirable to permit branch banking within metropolitan areas and within rural counties.

1. This opposition is not confined to the small rural banks but is shared by many of the large banks of such financial centers as New York and Chicago.

²⁰ Collins. C. W. *The Branch Banking Question*. p. 23.

- B. Such leading financial publications as the *Commercial and Financial Chronicle* and the *Bankers Magazine* are opposed to multiple banking.
 - C. A survey made by the Illinois Bankers Association showed that 75 per cent of the business men are opposed to multiple banking.
 - D. Only nine states have laws which permit state-wide branch banking and only ten states by law permit branch banking within limited areas.
- V. Multiple banking results in a dangerous concentration of financial power; for
- A. It has been the experience of all countries in which multiple banking has been unrestricted that it leads to the extinction of all independent unit banks and to the concentration of all banking power in a very few institutions. (4, 5, 37, 38, 41)
 - 1. In England there are only some fifteen commercial banks, which operate nearly 10,000 branches. Of these fifteen banks, the so-called Big Five control approximately 85 per cent of the resources.
 - 2. In Canada the number of banks has been reduced to eleven, which possess nearly 4000 branches.
 - 3. A similar movement is going on in France, Germany, Japan, and other countries which permit multiple banking.²¹
 - 4. Former Comptroller of the Currency H. M. Dawes has said, "Experience in other countries definitely indicates that independent unit banks do not exist parallel with branch banks."²²

²¹ *Hearings*, Op. cit. V. 1. pt. 4. p. 429-30.

²² Annual Report of the Comptroller of the Currency, 1923. p. 10.

- B. As multiple banking is developing in the United States it is resulting in the concentration not only of commercial banking but of many other types of financial institutions into a few hands; for (61, 62)
1. It is gradually absorbing the investment banking business, The independent investment bank is threatened with extinction just as is the independent commercial bank. All the large branch and group institutions have their own investment company as a subsidiary and all the branches and group members buy their securities from this subsidiary. The independent investment banker is thus being deprived of his market.
 2. The large multiple banking institutions are invading various other financial fields. The Transamerica Corporation in December, 1929, besides controlling eighteen commercial banks with some 500 branches, also controlled a joint stock land bank, an agricultural credit corporation, a fire insurance company, a life insurance company, several investment and securities companies, mortgage companies, and a bank in Italy with thirty-seven branches.²³ The Guardian Detroit Union Group (Inc.) controls fifteen financial corporations of various types in addition to its twenty-seven banks and trust companies.²⁴
- C. Multiple banking if unrestricted will ultimately result in the control of the Federal reserve banks by a very few large banks, as is pointed out more fully in part VI-A following.

²³ *Hearings*. Op. cit. V. 2. pt. 11. charts following p. 1350; also V. 1, pt. 2 p. 176.

²⁴ *Ibid*. V. 2. pt. 9. p. 1068-9.

D. Such concentration is undesirable; for (37, 40, 41)

1. It results in virtual monopoly.
 - a. As Former Comptroller of the Currency H. M. Dawes has said, "To say that if a large proportion of the banking interests of a State are centralized in the hands of five or six or a dozen branch banking institutions and that these institutions will not combine, either as a result of direct conferences or agreement or of mutuality of interests, is to ignore the fundamental basis of human action."²⁵
2. It is dangerous to the political liberties of the people.
3. It makes all forms of business subservient to the banks.
4. It is contrary to the fundamental political and economic philosophy of the American people; for
 - a. Our political philosophy is based on equality of opportunity; our economic philosophy on the ideal of competition. The financial concentration resulting from multiple banking is destructive of both.
 - b. The American people from the time of Andrew Jackson have opposed financial concentration and autocracy.

VI. It is not advantageous to bankers and bank stockholders; for

- A. It destroys the independence of the bankers and reduces them to the status of hired employees. (42, 59)

²⁵ Annual Report of the Comptroller of the Currency. 1923. p. 9.

- B. It does not develop initiative and leadership among the bankers, as they are circumscribed by rules and regulations. (42, 43, 59)
 - C. It subjects the value of the bank stock to the fluctuations of the speculative market. (39, 60)
 - 1. The stock of the large group and branch bank organizations has already become the object of wide spread speculation.
 - D. Experience in England has shown that the growth of the branch banking system has reduced rather than increased profits.²⁶ (42)
- VII. It introduces an undesirable speculative element into banking; for
- A. It leads to the formation of group and branch systems for the speculators' and promoters' profits that may be secured. As a result, (37, 39, 60)
 - 1. Banks become the pawn of speculators and promoters.
 - 2. The manipulation that accompanies speculative control is dangerous to the soundness of our banking system.
 - B. The fluctuations in the value of the stock of the large multiple banks, which result from speculation, may impair public confidence in the banks themselves; for
 - 1. A rapid decline in the value of the stock of a bank, whatever its cause may be, may lead the public to believe that the bank is in a bad condition. The decline of the stock of the Bank of Italy in June, 1928, led to the charge being made in Congress that the bank had failed.²⁷

²⁶ Sykes, Joseph. *The Amalgamation Movement in English Banking*, 1825-1924, p. 126-40.

²⁷ *Hearings*, Op. cit. V. 1. pt. 2. p. 200.

VIII. It makes thorough and comprehensive bank examinations impossible; for

- A. An adequate examination of a multiple bank requires the simultaneous examination of all the branches or all the members of a group. Otherwise it would be possible for a bank to cover up a bad situation by an improper manipulation or shifting of assets between banks. But as a practical proposition it is impossible for the states and even for the Federal government to maintain a staff of examiners sufficiently large to make a simultaneous examination of the large group and branch institutions, with their hundreds of branches or members. (3, 38, 41, 53)
- B. In a group banking system satisfactory examinations are impossible because of the divided jurisdiction in making the examinations; for
 - 1. Within the same group there may be national banks, examined by the national examiners, and state banks in several states, each examined by the examiners of the state in which it is located. With such divided examinations it is easily possible for the banks to cover up improper conditions and practises.
- C. In most multiple banking institutions the solvency and liquidity of the banks are closely tied up with that of their numerous subsidiaries and affiliates, which in most instances are not subject to any governmental examination or supervision.

IX. Multiple banking endangers the proper control and functioning of the Federal Reserve System; for

- A. If multiple banking should be unrestricted, the control of the Federal reserve banks would

come to rest in the hands of a very few banks ;
for (38, 52, 54)

1. Under group banking, the groups through the control of their members could elect six of the nine directors of each Federal reserve bank. (The other three are appointed by the Federal Reserve Board.)

- a. At the present time, when group banking is only in its infancy, two banking groups in the Minneapolis Federal reserve district together control absolutely the election of two directors of the Federal reserve bank and have an effective control over the election of two others.²⁸

2. Under branch banking the same conditions would ultimately result because of the absorption of the banks into a few large branch systems.

B. It seriously weakens the power of the Federal reserve banks to control the expansion and contraction of credit ; for (3, 52, 53)

1. The effectiveness of this control is dependent upon the extent to which member banks borrow or rediscount at the Federal reserve banks. In a multiple banking system it is possible by transferring funds from one bank to another within the same system to take care of seasonal and sectional variations in the demand for credit and thus to eliminate almost entirely the necessity of borrowing or rediscounting at the Federal reserve bank.

- a. The Bank of Italy, the largest branch banking institution in the country,

²⁸ *Hearings*. Op. cit. V. 1. pt. 2. p. 185.

boasts that it has never rediscounted at the Federal reserve bank.²⁹

2. The vast resources at the command of the group and branch banks makes it possible for them to oppose effectively the credit policies of the Federal reserve banks if they desire to do so; for
 - a. By calling loans and raising interest rates they may tighten the money market when the Federal reserve banks are trying to make conditions easier.
 - b. By loaning freely they may encourage inflation and speculation when the Federal reserve banks are trying to check them.
- C. The experience of England shows that multiple banking is dangerous to the power and effectiveness of the central bank of a century; for (3)
 1. The English banks depend very little upon the Bank of England for credit. In April, 1930, the Bank had outstanding loans and advances to the amount of only, in terms of dollars, \$33,000,000.³⁰ At the same time the Federal reserve banks had made loans and discounts of \$443,000,000.
 2. English authorities agree that the great size that the branch banks have attained there constitutes a menace to the Bank of England.
 - a. Sir Charles Addis, a leading authority, wrote in 1918, "It may be questioned whether the gigantic size they have already attained does not con-

²⁹ *Hearings*. Op. cit. V. 2. pt. 11. p. 1382.

³⁰ *Federal Reserve Bulletin*. 16:373. June, 1930.

stitute a menace to the predominant position which the Bank of England has hitherto enjoyed as the bankers' bank."²¹

- b. Sykes, another authority, declared in 1926 "There is no doubt that, from the point of view of the preservation of the status and authority of the Bank, further large combinations are undesirable."²²
3. The English Government, becoming alarmed at the great size the banks were attaining, in 1918 appointed a committee to make a thorough study of the problem and as a result enacted legislation to prohibit further combinations without governmental consent."²³

RELATIVE MERITS OF BRANCH AND GROUP BANKING

I. Branch banking is preferable to group banking; for

A. It is more economical; for

1. It is not necessary for a branch to maintain a full set of officers and directors, with their salaries and fees, as group banks must do.
2. Operating expenses can be reduced by the introduction of improved and uniform methods and equipment much more readily in branch banking than in group banking.

B. It is more efficient; for

1. It offers a more simple and direct method of accomplishing the same objectives aimed at in group banking; for

²¹ Sykes. Op. cit. p. 170. Quoted from the *Edinburgh Review*. July, 1918.

²² *Ibid.* p. 171.

²³ Harr, L. A. *Branch Banking in England*. p. 59-64.

- a. Diversification of assets, mobility of funds, the ability to meet the needs of large borrowers, expert supervision, and the safety that accompanies large capital and resources are more directly and readily obtainable in branch banking than in group banking.
 - b. Comptroller of the Currency Pole has said that, "The group can never be operated with the economy, the flexibility and the singleness of policy which is possible under a branch system."³⁴
- C. It can better meet the needs of small communities; for
1. Many small communities do not provide enough business to support an individual bank, with all its costs of organization and operation. Many bank failures are accounted for by the attempt to operate banks under such conditions. A branch, however, which has no required capital and small operating expenses, may be successfully operated in such communities.
- D. It offers greater protection to depositors; for
1. The total resources of the entire bank are back of each branch. It is impossible for the depositors of any one branch to suffer losses unless the bank as a whole becomes insolvent. In group banking, on the other hand, no bank is responsible for the liabilities of the other members of the group. Nor is the holding company liable except to the extent of the double liability resting upon the bank stock it owns.

³⁴ *Commercial and Financial Chronicle*, Sec. 2, p. 67, October 19, 1929.

- E. It does not offer the problem of divided jurisdiction to governmental supervisors and examiners; for
 - 1. A branch bank with all its branches is necessarily subject to the jurisdiction of the Federal government or of the state which chartered it. In a group banking organization, on the other hand, there may be banks which have been chartered by the national government and by several different states, each subject to examination and supervision by a different set of authorities. This situation greatly increases the opportunity to conceal fraudulent practices or an insolvent condition by the shifting of assets among the members of the group.
- F. It does not permit the interdepositing of reserves, which is possible in group banking; for
 - 1. In a group banking organization many of the banks may be state banks which are not members of the Federal Reserve System, and so can deposit their reserve in other commercial banks. Naturally they will deposit them in another bank or banks belonging to the same group, which can lend or invest the funds so received. This will produce the undesirable and potentially dangerous situation of what is essentially one banking institution loaning or investing a large part of its own legal reserves. This defeats the very purpose for which reserves are required.
- G. Many group bankers admit they would convert their groups to branch banks if it were legally permissible.

1. The head of one large group banking institution has said:²⁵

I do not regard group banking in its present form as the equal of branch banking either in its ability to meet the needs of local communities with dispatch and precision, in the flexibility and simplicity of its organization or in the economy of its operation. . . The First National Bank of Atlanta would immediately avail itself of the opportunity to substitute branch banking for group banking.

II. Group banking is preferable to branch banking; for

- A. The management of a group bank remains in the hands of local persons; for

1. When an existing bank becomes a member of a group the local officers and directors are practically always retained. Thus the management remains in the hands of those who are familiar with and in sympathy with the needs of the community. A manager of a branch bank, on the other hand, is usually an employe of the bank who has not previously been a resident of the community which he serves.

- B. Group banks are more responsive to local conditions; for

1. The officers and directors of group banks usually have greater authority and power of discretion in determining credit and operating policies than do branch bank managers. Thus group bankers are more likely to take care of the needs of local borrowers instead of loaning the funds outside the community.

²⁵ John K. Ottley, president, First National Associates, Atlanta, Ga., a group banking institution. *Hearings*, Op. cit. V. 2. pt. 10. p. 1262.

- C. Each group bank has a responsible board of directors, which can render invaluable services to the bank; for
 - 1. The directors are usually leading business men of the community, whose knowledge of local business and business men is of great value to the officials of the bank in making loans. Moreover, the directors are responsible for the proper conduct of the bank in all ways and can be held personally and unlimitedly liable for any losses which may occur because of neglect of their duties. It is true that branches sometimes have advisory boards of local business men. However, since these boards have neither authority nor responsibility their value to the branch is not to be compared with that of a responsible board of directors to a group bank.
- D. Group banking offers as much security to depositors as does branch banking; for
 - 1. Although it is legally possible for a member bank of a group to fail while the other members and the holding company are in a solvent condition, in actual experience this would rarely, if ever, happen. The failure of one member would endanger public confidence in the others. The group for its own safety could not permit one of its members to fail. Therefore all the resources of the holding company are back of each of its banks, just as all the resources of a branch bank are back of each of its branches.
- E. Group banking is more efficient than branch banking; for
 - 1. The greater authority and power of discretion which group bankers possess make

necessary fewer rules and regulations and less routine and red tape. Decisions on loans can be made more promptly. Operating policies can be adapted more readily to meet local and changing conditions. New methods and policies can be tried out more quickly. The standardization that exists in branch banking is deadening to the experimentation that must go on in any field to insure progress.

- F. Group banking combines the best features of both unit and branch banking and eliminates the most undesirable features of each ; for
1. It conserves in a large measure the local financial autonomy that is a valuable feature of unit banking. It is free from the criticism of absenteeism that is levied against branch banking. It is the golden mean between the extreme centralization of European branch banking and the equally extreme individualism of American unit banking.
 2. Safety, security, and stability, which are the chief merits of branch banking, are equally well provided by group banking. In the latter system, however, these advantages are secured by cooperation, for group banking is essentially a cooperative enterprise; in branch banking, they are secured by centralization. The one method is in harmony with the American political and economic ideals; the other is contrary to the spirit of our institutions.

BIBLIOGRAPHY

Articles starred * have been reprinted entirely or in part in this Handbook.

GENERAL REFERENCES

BOOKS, PAMPHLETS AND DOCUMENTS

American Bankers Association. A study of group and chain banking. Report of the Economic Policy Commission. N.Y. '29.

A comprehensive survey of the extent and nature of group and chain banking.

*Breckenridge, R. N. The Canadian banking system, 1817-1890. Publications of the American Economic Association. V. 10, no. 1, 2, and 3. Ja. Mr. and My. '95.

A thorough study of Canadian banking for the period indicated. The merits of branch banking are critically but favorably considered.

Collins, C. W. The branch banking question. Macmillan. N.Y. '26.

A study of the legal status of branch banks in the various states and under the National Banking Act and the Federal Reserve Act.

Eckhardt, H. M. P. A rational banking system: a comprehensive study of the advantages of the branch bank system. Harper. N.Y. '11.

Federal Reserve Board. Annual reports. 1915-1929.

Reports and recommendations on branch, chain, and group banking.

*Harr, L. A. Branch banking in England. Univ. of Pa. Press. Phila. '29.

A study of the development and operations of the great English banks. A similar system of branch banks is urged for the United States.

Library of Congress. Division of Bibliography. List of references on branch banking. Compiled under W. A. Slade, chief bibliographer. O. 10, '22.

A comprehensive general list of books and articles. Obtainable in mimeograph form only.

Moulton, Harold G. The financial organization of society. Ch. 30. Univ. of Chicago Press. '30.

A consideration of the general problem of financial consolidation and integration.

*National Monetary Commission. State banks and trust companies since the passage of the National Bank Act. Ch. 6. G. E. Barnett. Gov. Ptg. Office. Wash. D.C. '11.

Chapter 6 is devoted to a consideration of multiple banking among the state banks.

Ostrolenk, Bernhard. The economics of branch banking. Harper. N.Y. '30.

An excellent treatise of the present status of branch and group banking. The economic bases of multiple banking are carefully considered. Branch banking is urged for the United States.

Southworth, S. D. Branch banking in the United States. McGraw-Hill. N.Y. '28.

A factual and legal study of branch banking in certain selected states and in the national banking system, with some attention to branch banking in other countries.

*Sykes, Joseph. The amalgamation movement in English banking, 1825-1924. P. S. King and Son, Ltd. London. '26.

The development of the great English banks is studied in detail. The merits of their large size and numerous branches are critically considered.

United States. Comptroller of Currency. Annual reports. 1898, 1923,* 1929.

In the report for 1898, Charles G. Dawes recommends limited branch banking for rural districts. In the report for 1923, Henry M. Dawes defends the unit banking system. In the report for 1929, John W. Pole urges branch banking within trade areas.

*United States. House Committee on Banking and Currency. Branch, chain, and group banking. Hearings on H. R. 141. 71st Congress, 2nd Session. '30.

The most exhaustive discussion of the subject in print. Nearly 1800 pages of testimony, opinions and data. Both sides of the question are thoroughly discussed.

United States. House Committee on Banking and Currency. Consolidation of national banking associations, etc. Hearings on H. R. 6855. 68th Congress, 1st Session. '24.

The merits of branch banking are discussed pro and con by witnesses before the committee. Particular attention is given to the branch banking problem in California.

United States. Senate Committee on Banking and Currency. Consolidation of national banking associations. Hearings on S. 3316 and H. R. 8887. Parts 1 and 2. 68th Congress, 2nd Session. '25.

United States. Senate Committee on Banking and Currency. Establishing savings bank branches of national banks. Hearings on S. 4721. Parts 1 and 2. 66th Congress, 3rd Session. '21.

United States. Subcommittee of Senate Committee on Banking and Currency. Consolidation of national banking associations. Hearings on S. 1782 and H. R. 2. 69th Congress, 1st Session. '26.

Whaley-Eaton Service. Questionnaire on branch banking. Pamphlet series, V. 5. No. 3. Wash. D.C. '29.

PERIODICALS

American Bankers Association Journal. 18:601-2. Mr. '26. Branch banking a fundamental social question: discussion of section 9 of the McFadden bill, etc. Howard Whipple.

American Bankers Association Journal. 20:255-6. O. '27. Holding company in banking. R. A. Lewis.

American Bankers Association Journal. 20:761-2+. Ap. '28. The trend to chain banking. H. H. Preston. A classification of chain banks according to methods of control. Facts about earlier bank chains.

American Bankers Association Journal. 22:121-2+. Ag. '29. Bank mergers and branch banks. V. L. Holland.

Contains extensive references to English banking development.

- *American Bankers Association Journal. 22:307-8+.
 O. '29. Great web of chain banking. R. S. Hecht.
 A summary of the report of the Economic Policy Commission of the American Bankers Association. Statistical and other information concerning extent and nature of group and chain banking.
 American Bankers Association Journal. 22:482+. N.
 '29. As bankers see chain banking.
 American Bankers Association Journal. 22:846-7. Mr.
 '30. How will group banking affect the Federal reserve? E. A. Carter.
 American Bankers Association Journal. 22:957-8+.
 Ap. '30. Five banks with 8000 branches. F. E. Lee.
 Important facts concerning the Big Five Banks of England.
 *American Bankers Association Journal. 22:1124-6+.
 Je. '30. Chains, groups and branches.
 Data on the extent of group and chain banking.
 American Bankers Association Journal. 23:67. Jl. '30.
 Status of group, chain and branch banking in the United States.
 American Bankers Association Journal. 23:79. Jl. '30.
 The needs of bankless towns. A. J. Veigel.
 American Economic Review. 14:443-62. S. '24. Recent developments in branch banking. H. H. Preston.
 American Economic Review. 20:400-25. S. '30. Proposed national banking legislation. F. A. Bradford.
 *American Mercury. 20:144-52. Je. '30. The banks go chain-store. Virgil Willit.
 The development of multiple banking is sketched, its causes considered, and its merits discussed.
 Annalist. 26:510. O. 23, '25. California branch banking vs. unit banking. R. B. Westerfield.
 Annalist. 34:492-3, 543, 588-9. S. 13-27, '29. Critical problems confronting country banks and how they are being solved; rural bankers oppose chain banking; but sentiment in its favor is gaining, etc. C. M. Harger.
 Annals of the American Academy. 107:136-48. My. '23.
 Canadian banking. Edmund Walker.

Bank Director. p. 16-17+. S. '26. Defining difference between United States and Canadian banking systems. A. B. Barker.

Bankers Magazine. 109:417-19+. S. '24. Development of branch banking in Sweden. H. Melin.

Bankers Magazine. 113:594-600. N. '26. Does branch banking prevent bank failures? J. M. Chapman.

The author concludes that although branch banks are not an absolute protection against failures, nevertheless they offer greater protection than do unit banks.

Bankers Magazine. 120:463-9. Ap. '30. Comptroller Pole's views on rural unit banking. Editorial.

Bankers Magazine. 120:607-11. My. '30. The aims of group banking. Editorial.

Bankers Magazine. 121:299-302. S. '30. The problem of banking concentration. J. G. Lawrence.

Bankers Magazine. 121:447-51. O. '30. Banking concentration—its progress and present status. J. G. Lawrence.

Bankers Monthly. 47:28+. F. '30. How groups will solicit business. J. E. Neville.

References to the earlier development of group banking.

Bankers Monthly. 47:21-2+. Je. '30. To avoid outside ownership. Ivan Wright.

The author suggests that the banks of a county or similar area form their own group in order to retain local ownership.

*Bankers Monthly. 47:23-4. Je. '30. Group, branch, independent. C. D. Murphy.

Contains the results of a questionnaire on multiple banking sent out by the Illinois Bankers Association.

Barron's. p. 11+, 7+. Ag. 1-8, '27. What is the matter with our country banks; is our present system of rural banking breaking down? R. P. Crawford.

Barron's. p. 3+. Ap. 14, '30. Group banking sweeps the country. E. T. Clough.

A consideration of the present development of group banking and of arguments pro and con. Leading groups are listed.

Canadian Bankers Association Journal 36:65-70. O. '28.

The Canadian system of branch banks. D. R. Wilkie.

*Chase Economic Bulletin. V. 10. No. 2. My. 8, '30.
Branch banking throughout Federal reserve districts.
B. M. Anderson.

The author contends that branch banking is needless and undesirable except in exceptional cases and limited areas.

Collier's. 85:20-1. Ja. 11, '30. Big bank round-up;
difference between chain banking and branch bank-
ing. J. T. Flynn.

The conflicts of interest in the current controversy are pointed out.

Economist. (London). 100:745-6. Ap. 18, '25. Branch
banking in the United States and Canada.

The Canadian system of branch banking is compared with the American system of unit banking. The author points out the disadvantages of branch banking.

Federal Reserve Bulletin. 10:925-40. D. '24. Branch
banking in the United States. Tables, Map.

Lists the number of branches in operation by state and national banks, 1865-1924.

Federal Reserve Bulletin. 11:182-7. Mr. '25. State
laws relating to branch banking.

Federal Reserve Bulletin. 12:401-8. Je. '26. Branch
banking in the United States. Tables.

Federal Reserve Bulletin. 13:315-18, 384-9. My. '27.
Branch banking developments in 1926; Branch bank-
ing. Tables.

Federal Reserve Bulletin. 15:97-103. F. '29. Correc-
tion. 15:178. Mr. '29. Branch banking develop-
ments, June 30, 1928.

Federal Reserve Bulletin. 15:762-71. D. '29. Branch
and chain banking developments. 1929.

Contains a comprehensive survey of extent of branch and chain banking.

*Federal Reserve Bulletin. 16:144-57. Ap. '30. Branch,
chain, and group banking. December, 1929.

The most comprehensive statistics available on branch, chain and group banking.

*Federal Reserve Bulletin. 16:258-66. Ap. '30. Digest
of state laws relating to branch banking.

Forbes. 25:20-2+. F. 15, '30. Nation is facing another banking war; city against country, local against branch banking, branch banking against chains.

Forbes. 25:26+. My. 1, '30. Small banker senses the inevitable. J. Oakwood.

The changes which have brought about chain banking are pointed out.

Fortune. 1:63-5+. F. '30. Banking, group and branch. A 10,000 word survey of the chief current problem in American banking.

An excellent general presentation of the subject. The leading groups are listed.

Journal of Business. (University of Chicago). 2:65-81. Ja. '29. Size of failing banks in Iowa. R. Pickett.

It is interesting to note that the percentage of failures among small banks is not so much greater than that among large banks as is generally supposed.

Journal of Economic and Business History. 2:271-98. History of the Bank of Italy in California. G. W. Dowrie.

A history of the origin and growth of the foremost branch banking institution in the United States.

Journal of Land and Public Utility Economics. 6:26-37. F. '30. Country bank efficiency. Virgil P. Lee.

Journal of Political Economy. 36:480-500. Ag. '28. Sixty years of branch banking in Virginia. G. T. Starnes.

Magazine of Wall Street. 45:182-3. N. 30, '29. Are new banking tendencies a liability to the business man? A. M. Leinbach.

Mid-Western Banker. p. 14+. Mr. '29. Wisconsin's new bank laws. E. M. Keays.

A discussion of Wisconsin's banking law relating to chain and group banking.

New Republic. 63:141-3. Je. 25, '30. Big banks out of little ones. J. T. Flynn.

Oregon Voter. 55:297-300. N. 24, '28. Chain bank control laws.

- Outlook. 153:226. O. 9, '29. Branch banking. C. A. Shively.
- Outlook. 154:106. Ja. 15, '30. Group banking; boon or menace? W. O. Scroggs.
- System. 3:49. D. '29. Holding companies invade the banking field. P. Wooton.
- Trust Companies. 49:281-4. S. '29. Bank mergers and holding corporations; battle for survival of unit banking system.
- Banking is regarded as passing through the period of mergers and consolidations which occur in all lines of business.
- Trust Companies. 50:187-90. F. '30. Recent trend and future of American banking system. L. T. McFadden.
- Trust Companies. 50:689-94. My. '30. Solution of America's major banking problems. F. W. Blair.

AFFIRMATIVE REFERENCES

- American Bankers Association Journal. 18:356+. N. '25. Four current banking problems: . . . branch banking and the number of failures; the need for an investigation of the branch banking problems. J. F. Sartori.
- American Bankers Association Journal. 18:391-2. D. '25. Handwriting is on the wall for country banks. G. Woodruff.
- American Bankers Association Journal. 20:445-6+. D. '27. What the future bank must be. A. P. Giannini.
- Contents that small banks profit by being absorbed as a branch by a larger bank. Bank stock increases in value and officers are better paid.
- American Bankers Association Journal. 21:117+. Ag. '28. Chain banking looms large. H. E. Sargent.
- American Bankers Association Journal. 22:315-16+. O. '29. Group banking in the Northwest. T. O. Hammond.
- The conditions in the Northwest which group banking is attempting to remedy are pointed out.

American Bankers Association Journal. 22:317+. O. '29. Advantages of group banking. A. Price.

*American Bankers Association Journal. 22:363+. O. '29. Agriculture needs branch banking. C. Hendrix. The dangers of unit banking in agricultural districts are stressed.

American Bankers Association Journal. 22:755+, 877+. F.-Mr. '30. Canada's experience with branch banking. M. F. Foster.

American Bankers Association Journal. 23:269-71+. O. '30. Shall we attempt to block natural economic forces? R. S. Hecht.

*Annalist. 20:318+. O. 2, '22. Examination of opposition to branch banking. R. B. Westerfield. The chief objections to branch banking are examined and rejected.

Annalist. 23:183+. F. 4, '24. Unsound banking the wheat farmer's curse; branch banking would serve him best. E. A. Bradford.

Annalist. 26:479+. O. 16, '25. California branch banking vs. unit banking. R. B. Westerfield.

The economic development of the country has made unit banks inadequate. California's experience with branch banking.

Annalist. 33:43-4. Ja. 11, '29. The evils of localism, despotism and nationalism in our banking practice. R. B. Westerfield.

Atlantic Monthly. 145:214-19. F. '30. Revolution in banking theory. B. Ostrolenk.

An excellent presentation of the economic arguments for branch and group banking.

Bankers Magazine. 106:667-9. Ap. '23. Small bank can't meet modern demands. A. P. Giannini.

Bankers Magazine. 109:575-7. O. '24. Discussion of branch banking. E. Platt and W. B. Thurston, Jr. The branch banker is better trained than the unit banker and just as eager to serve his community.

Bankers Magazine. 114:813-16. Je. '27. Branch banking and the Bank of Italy. A. P. Giannini.

- *Bankers Magazine. 117:509-16. O. '28. Nationwide branch banking. C. W. Collins.

An able presentation of the fundamental arguments for branch banking.

- Burroughs Clearing House. 13:14-16+. Ap. '29. Nine hundred banks in one—the Canadian system of control as typified by the Royal bank. H. K. Wright.

- Burroughs Clearing House. 13:16-17+. My. '29. Do we want branch banks? Comparing our system with the Canadian. J. H. Simpson.

The advantages of branch banking as exemplified in Canada.

- *Burroughs Clearing House. 14:23-5+. N. '29. Trust service—state-wide. J. K. Novins.

The plan of the Bank of Italy for furnishing trust services through its branches to all parts of California.

- Burroughs Clearing House. 14:9-11+. D. '29. Pioneering banks in Canada. J. Duke.

A graphic picture of the efforts made by Canadian banks to supply frontier communities with branches.

- Burroughs Clearing House. 14:10-12+. F. '30. What is a branch banker like? A. J. Mount.

- Burroughs Clearing House. 14:25-7. Ap. '30. May we learn from Canada? Fred B. Barton.

A consideration in a favorable light of the operation of branch banks in Canada.

- *Business Week. p. 37-9. D. 4, '29. Chain banks won't wear high hats.

It is contended that chain and group banks are as anxious to serve and please their customers as unit banks are.

- Business Week. p. 7. Ja. 1, '30. Branch banks to help the farmer.

- Chicago Banker. p. 9-10. Jl. 13, '29. Unit, group, or branch banking? J. W. Pole.

- Commercial and Financial Chronicle. 126:527-8. Ja. '28. Nationwide branch banking inevitable. J. A. Baci-galupi.

A summary of the annual report of the Bank of Italy to its stockholders.

Commercial and Financial Chronicle. 126:3868-9. Je. 23, '28. Too many independent banks; dangerous over-expansion of credit. L. T. McFadden.

Commercial and Financial Chronicle. 129:2010-11. S. 28, '29. Forty-nine financial institutions in group holdings of First bank stock corporation formed in Minneapolis and St. Paul. B. W. Phillips.

Advantages of group banking are listed.

*Commercial and Financial Chronicle. 129:65-7. Sec 2. O. 19, '29. The need of a new banking policy. J. W. Pole.

Great number of bank failures in past decade proves need of a new banking policy. Branch banking favored over group banking.

Commercial and Financial Chronicle. 129:108-10. Sec. 2. O. 19, '29. Group banking best adapted to agricultural needs. E. G. Bennett.

*Commercial and Financial Chronicle. 130:1176-9. F. 22, '30. Group banking in the Northwest—benefits resulting to communities, depositors and member banks. J. E. Neville.

Credit Monthly. 27:14+. Jl. '25. Branch banking as a means of preventing bank failures. E. Platt.

Forbes. 18:26+. N. 1, '26. Our economic maturity makes new demands of banking. G. Edwards.

Magazine of Business. 54:658-60+. D. '28. Bigger banks—a response to big business. G. Griswald.

Bank mergers are regarded as an inevitable step brought on by economic evolution.

Magazine of Business. 55:529. My. '29. When branch banking becomes nation-wide. A. P. Giannini.

*Magazine of Business. 55:640-1+. Je. '29. Canadian bankers answer: how does branch banking serve business? J. H. Millar.

A defense of branch banking based on Canadian experience. Nation. 130:239-40. F. 26, '30. Must banks fail? J. G. Curtis.

It is contended that bank failures constituted one of the causes of the agricultural depression, instead of being a result of it.

*Nation. 130:489-90. Ap. 23, '30. The turning financial worm. J. G. Curtis.

Opposition of New York and Chicago bankers to multiple banking explained. Fear loss of their correspondents and of their dominant position.

Nation's Business. p. 60+. My. '29. The banks want bigger banks. J. C. Royle.

Sound Currency. 5:377-84. D. 1, '98. The Southern farmer and banking reform. M. B. Hammond.

Branch banks are urged to meet financial needs of Southern farmers.

Trust Companies. 40:739-41. Je. '25. Cause and remedy for bank failures; evidence favors larger units and branch banking within limits. Edmund Platt.

Argues for branch banks in small communities.

Trust Companies. 44:771-2. Je. '27. Limited country branch banking as panacea for bank failures. E. Platt.

Trust Companies. 47:59. Jl. '28. Branch banking in the light of modern economic demand and trends. H. E. Jones.

Trust Companies. 48:421-2. Mr. '29. How branch banking multiplies opportunities for trust service. A. P. Giannini.

Trust Companies. 49:14-16. Jl. '29. Economic and business reasons for the big bank merger movement. C. W. Collins.

An excellent discussion of the causes producing bank mergers.

NEGATIVE REFERENCES

American Bankers Association Journal. 18:88+. Ag. '25. Only method to preserve independent banking; county clearing houses and bureaus of credit versus branch banking. C. A. Chapman.

American Bankers Association Journal. 20:931+. Je. '28. Saving the independent bank. A. J. Veigel.

Recommends mergers of small weak banks in country communities.

*American Bankers Association Journal. 22:3+. Jl. '29.
False evolution in banking. C. B. Hazelwood.

A former president of the American Bankers Association argues in favor of unit banking.

*American Bankers Association Journal. 22:109+. Ag.
'29. The consequences of bank mergers. W. L. Throp.

This article, although not a controversial one, raises significant questions as to the advantages of bank mergers.

*American Bankers Association Journal. 22:130+. Ag.
'29. Could national branch banking be properly regulated? R. L. Bone.

The proper examination of multiple banks is a serious and difficult problem.

*American Bankers Association Journal. 22:318-19. O.
'29. Old fashioned unit banking. M. B. Nahm.

The services of the unit banker to his community are extolled.

*American Bankers Association Journal. 22:357-8+. O.
'29. Unit banking best for agriculture. M. P. Beebe.

American Bankers Association Journal. 22:645-6+. Ja.
'30. Brief for independent banking. J. A. Pondrom.

Unit banking is not responsible for the epidemic of bank failures; branch banking is not the remedy needed.

American Bankers Association Journal. 22:748+. F.
'30. Consolidate and survive. C. D. Tedrow.

Consolidation among small banks urged as means of preserving the independent banks.

American Bankers Association Journal. 22:775+. F.
'30. Future of the independent country bank. M. P. Beebe.

The contention is made that if properly managed, small country banks are both safe and profitable.

American Bankers Association Journal. 23:298-300+. O.
'30. Well-managed unit banks can stand alone. C. B. Hazlewood.

Bank News. p. 9+. S. 1, '29. Branch banking as viewed by a country banker. R. W. Hutto.

*Bankers Magazine. 106:638-49. Ap. '23. Social importance of branch banking. Howard Whipple.

An able argument against branch banking from the social point of view.

*Bankers Magazine. 109:19-22. Jl. '24. Branch banking and the small borrower. M. D. Miller.

The claim is made that the branch banks neglect the small borrower.

Bankers Magazine. 110:9-12. Ja. '25. How 3000 banks voted on chain banking.

A report of a poll conducted by the *Bankers Magazine* on the McFadden bill.

Bankers Magazine. 120:324-5. Mr. '30. Farmers' banks. Editorial.

Unit banking can best meet the needs of the farmers.

Bankers Magazine. 120:470-1. Ap. '30. Unit banking not so bad after all. Editorial.

An article on Comptroller of the Currency Pole's "trade area" proposal for branch banking.

Bankers Magazine. 120:617-23. My. '30. Branch banking—to be or not to be. C. F. Zimmerman.

*Chase Economic Bulletin. V. 9. No. 5. O. 12, '29. Bank consolidations in a period of speculation. B. M. Anderson.

American unit banking is compared favorably with European branch banking.

*Chicago Journal of Commerce. F. 11, '30. Branch banking needless. G. R. Meyercord.

Commercial and Financial Chronicle. 113:154-7. Sec. 2, O. 29, '21. Action of national bank division of the American bankers' association on branch banking.

The unit bank is given credit for American prosperity, as contrasted with the lack of it in the branch banking countries of Canada and England.

Commercial and Financial Chronicle. 115:1269-70. S. 16, '22. Association of Missouri banks and trust companies opposed to branch banking.

Arguments in favor of unit banking are given.

Commercial and Financial Chronicle. 116:676-7. F. 17, '23. Resolution of Minnesota legislature opposing branches of national banks; associations formed to oppose national bank branches.

- Commercial and Financial Chronicle. 116:2587. Je. 9, '23. Pennsylvania bankers' association records its opposition to branch banking.
- Commercial and Financial Chronicle. 117:2036-8. N. 10, '23. Declaration of policy on branch banking by the Federal reserve board. Editorial.
- Commercial and Financial Chronicle. 121:1639-40, 1749-50. O. 3-10, '25. Meeting in Atlantic City of opponents of branch banking.
- Contains an attack on branch banking in Canada.
- Commercial and Financial Chronicle. 123:285-6, 411-12, 499-501. Jl. 17-31, '26. Over seventy chain banks in Georgia close as result of petition for receiver for Bankers' trust company of Atlanta—Florida banks also affected.
- Commercial and Financial Chronicle. 124:1723-7 Mr. 26, '27. Federal reserve policy and branch banking under the newly enacted law. Editorial.
- *Commercial and Financial Chronicle. 126:3511-13, 3656-7. 3826-7, Je. 9-23, '28. Branch banking: the merits of the unit bank. W. D. Selder.
- *Commercial and Financial Chronicle. 127:94-9. Sec. 2. O. 20, '28. Our unit banking system; growth of chain and branch banking. R. S. Hecht.
- Commercial and Financial Chronicle. 128:1165-6. F. 23, '29. Practical discussion of branch banking. J. D. Day.
- Branch banking leads to excessive competition and wasteful duplication of branches.
- Commercial and Financial Chronicle. 128:1983-5. Mr. 30, '29. Relative strength of the small bank.
- Commercial and Financial Chronicle. 128:4252. Je. 29, '29. Illinois bankers' association passes resolution condemning branch and chain banking.
- Commercial and Financial Chronicle. 128:4252-3. Je. 29, '29. In defense of unit banking. C. B. Hazlewood.

Commercial and Financial Chronicle. 129:217. Jl. 13, '29. Representative McFadden's proposal for nationwide branch banking powers for national banks opposed.

Dangers of banking concentration pointed out.

*Commercial and Financial Chronicle. 129:1643-4. S. 14, '29. Bank holding companies, chains and branches. Editorial.

Commercial and Financial Chronicle. 129:1798-1800. S. 21, '29. Country banker—an indispensable factor. Editorial.

*Commercial and Financial Chronicle. 129:2134-5. O. 5. '29. Federal Reserve System and branch banking. Editorial.

Under multiple banking a few large banks would dominate the Federal reserve system.

*Commercial and Financial Chronicle. 129:74-8. Sec. 2. O. 19, '29. Banking evolution in America. G. W. Davison.

The president of a leading New York bank maintains that a system of correspondent relationships between banks is preferable to multiple banking.

Commercial and Financial Chronicle. 129:3409-10. N. 30, '29. Branch, group and chain banking—mergers and the use of the powers of the Federal Reserve System. J. G. Strong.

Commercial and Financial Chronicle. 129:3526-8. D. 7, '29. Proposed regional branch banking. Editorial.

An attack on the "trade area" branch banking proposal of Comptroller of the Currency J. W. Pole.

Commercial and Financial Chronicle. 129:3729-30. D. 14, '29. Dangers in branch banking system. T. A. Goldsborough.

Journal of Industry and Finance. p. 7-8. F. '28. How chain banks might be stopped; proposals for a bill to forbid them; provisions of an act now under consideration. [N.J.]. Editorial.

*New York Journal of Commerce. O. 16, '29. Chain banking and the business of investment houses. Editorial.

The danger of chain banking to the investment houses is pointed out.

Printers Ink Monthly. 20:31-2+. Ja. '30. Concentration of money power threatens business initiative. G. W. Davison.

*Sales Management. 11:911-12+. N. 27, '26. And then—he went to the pawnshop. E. E. Troxell.

A story illustrating the neglect of small borrowers by multiple banks.

Saturday Evening Post. p. 8-9+. N. 9, '29. The branch banking problem. H. M. Dawes.

A general defense of unit banking and attack on multiple banking.

GENERAL DISCUSSION

STATEMENT OF COMPTROLLER OF THE CURRENCY JOHN W. POLE BEFORE CONGRESSIONAL COMMITTEE.¹

THE PROBLEM OF THE COUNTRY BANKS

The views which I bring before this committee are not primarily the result of recent research and the collection of information. I was myself a country banker. Later, as a national-bank examiner and as chief national-bank examiner, it became my duty to examine the affairs of hundreds of country national banks. For more than twenty years I have been in daily and intimate contact with the operations of our banking system. No one knows any better than I do that there are still strong and profitable country banks, and if I had any prejudices they would naturally be in favor of the system of unit banking to the sustenance of which I have been devoted for so many years. *It is with great reluctance that I have slowly come to the conclusion that our small independent unit country banks are no longer fulfilling the purposes of their creation and that there is need for a better, sounder, and stronger system.*

In order to avoid the impression that I am interested only in the national banks in this discussion, may I take this occasion to emphasize the fact that the statements I have made with reference to bank failures apply with equal if not greater force to state banks? The conditions which rural banking faces in the United States are the same for both national and state banks, and, as between

¹ Hearings before the Committee on Banking and Currency, House of Representatives. 71st Congress. 2d Session, under H. R. 141. V. 1. pt 1. p. 10-28.

the two, the statistics will show that the national banks have shown the stronger resistance in the ratio of approximately 3 to 1 during the last nine years. I am confident that your committee will have before it in the course of these hearings ample information which will lead to the conclusion that notwithstanding the fact that it is still possible for many country banks to operate successfully, the system under which rural banking as a whole is carried on does not provide a sufficient safeguard either to the depositors or to the shareholders nor does it offer a type of banking service adequate for modern conditions.

Many of the strong and well-managed country banks have found it necessary at times to discontinue making loans and to build up and carry large cash reserves for long periods of time. Due to the fear of "lack of confidence" and in their efforts to be prepared to withstand sudden withdrawals, some of these banks have restricted their operations to such an extent that they are of little benefit to the community in which they are located, and in some communities have practically ceased to function. Such banks are necessarily experiencing difficulty in earning a sufficient amount to cover operating expenses.

We are faced with a banking situation which applies almost entirely to the rural districts, although it should be borne in mind that there are also a considerable number of small banks in the larger cities, particularly in the outlying districts. There were on June 30, 1929, in the United States, 24,912 incorporated banks. Of this number 20,008 were situated in cities of 10,000 population or less. In other words, more than four-fifths of all the banks in the United States are situated in small towns. The average capital of these banks is about \$44,000 and their aggregate capital about \$881,000,000. They are all small banks.

It is among these small banks that most of the failures have occurred. Figures have not been compiled for the entire decade but for the eight-year period, ending with

1927, 71 per cent of the banks that failed, national and state, were capitalized below \$50,000 each and 88 per cent under \$100,000. By far the largest number of failures occurred among banks having \$25,000 capital or less, these constituting 63 per cent of the failures. The number of failures for this period was 4,513.

As to the places in which these failures occurred, 2,039—that is to say, a little over 40 per cent—were situated in towns and villages of population less than 500 persons; an additional 1,006, or 20 per cent, failed in towns having between 500 and 1,000 population; an additional 964 banks, or about 20 per cent, failed in towns of from 1,000 to 2,500 population; an additional 584 failures occurred in towns from 2,500 to 10,000 population. In other words, about 92 per cent of the failures were in places having less than 10,000 population. Reference is again made to the fact that there are also a number of banks of small capital in cities above 10,000 population, failures among which go largely to make up the remaining 8 per cent of the total failures.

I feel quite certain that the figures for 1928 and 1929 will upon analysis disclose a situation equally as unfavorable as that of the previous eight years.

Attention is particularly directed to the circumstances that the failures of country banks is not embraced in a period of time which has been closed and upon which we may look only in retrospect. This error has been made by many writers in making reference to the 5,000 bank failures as though the failures arose out of some past condition, the chief significance of which is to furnish an argument for or against a system of banking. It is true that this period had a somewhat definite beginning which appears to be coterminus with the war period and is no doubt related to many of the changes in our social and economic life caused directly or indirectly by the war. Unfortunately, the period in which these failures have occurred and are occurring has not been

brought to a close. In the year 1929 there were 640 bank failures in the United States causing the tying up of about \$234,000,000 of deposits, the greatest of any year in the decade except 1926. During the first seven weeks of 1930, there have been 155 additional failures. In other words more than ten years after the war we are still in the midst of a continuation of a condition which is causing small banks to fail. The nine-year period ending with December 31, 1929, witnessed 5,640 bank failures with aggregate deposits of \$1,721,000,000—scattered very largely throughout those small cities of less than 10,000 population to which reference has been made. Of this number 4,877 were state banks and 763 were national banks. I have not the figures for the actual and final losses to the depositors in these banks. Many of them are still in process of liquidation.

SOCIAL EFFECTS OF BANK FAILURES

In considering the great flood of statistical information which must be studied in order to discover the causes and effects of bank failures there is the danger of losing sight of the human and social aspect of the situation. Every bank failure presents a distinct phenomenon to the local community. It is a local dramatic event. Whereas the supervising official may in many cases not be surprised that the bank has failed and the executive officers of the bank and perhaps the local board of directors have been struggling for months or years to keep the bank open, the actual failure comes as a complete surprise and a shock to the depositors and in most cases to those shareholders who are not officers or directors of the bank.

There is no more distressing sight than a group of citizens, men and women, clamoring before the closed doors of a bank bewailing the loss of their savings. These losses fall upon the best and most substantial citizens in the community and many of them never recover their previous financial condition. Multiply this local event by nearly 6,000 and scatter it throughout the great

agricultural states of the Union and the magnitude of its effect reaches astounding proportions.

It is estimated that 7,264,957 depositors have contributed to the great total of more than \$1,700,000,000 of deposits in failed banks during the past nine years and that no less than 114,000 shareholders have suffered losses through these suspensions.

A similar adverse effect is had upon the borrowers of a bank which fails. When a receiver is appointed his duty is to wind up the affairs of the bank and to enforce liquidation. Many of the borrowers may have been doing business with the bank for years and may have been upon intimate terms with the officers of the bank. This is especially true of the so-called character loans where the bank takes an interest in a person who has good character and good prospects but weak in collateral and who is accommodated each year or from time to time covering a considerable period. The character and reputation of such person may be unknown to other banks; therefore, the credit standing of this class of borrower for the time being is destroyed. The receiver must demand payment and if payment is not made he must institute suit and prosecute the case to judgment in order to gain as much as he can for the depositors. Notwithstanding every means is employed to soften the blow which the community has sustained, this enforced liquidation in country banks works a bitter hardship upon the borrowers—the very type of borrowers which it has been claimed the unit system of banking is particularly designed to protect. Failed banks in the United States have caused within the last nine years the enforced liquidation of approximately two billion dollars of loans—chiefly small loans.

CAUSES OF BANK FAILURES

Many causes have been assigned for these bank failures; in one section droughts, in another insect pests, in another failure of the cattle market, in another a drop

in the price of wheat, and so on. A great many failures have been attributed to mismanagement, incompetent management, or criminal management; some banks have been closed on account of single cases of defalcation and robbery; another cause assigned is that too many rural bank charters have been granted.

While these various factors may have been the immediate occasion for the closing of these banks they do not indicate the basic cause. If one observes the same type of small country bank, situated in various sections of the country, unable to keep open its doors one naturally would seek the reason for the general condition. Can not the basic cause be found in the great economic and social changes which have come over this country within the past fifteen years—the war period and the postwar period? We have witnessed a revolution in the method of transportation and communication in the rural districts. Local communities which were at one time economically and socially independent have been put upon arterial highways which have drawn them close to the larger cities. It is now impossible for the country bank to gain that diversification in the banking business which was possible a few decades ago. The business of the small city is becoming more and more an adjunct of the business of the larger commercial centers. Opportunities for independent local financing are becoming fewer and fewer. The commercial business and the trust business are going to the large city bank. The country bank is left largely with real estate and small local loans.

If therefore these fundamental conditions have caused the business of the small bank to shrink to the point where it becomes unprofitable for the bank to operate we are met with a basic condition which can not be cured by palliatives. Several remedies have been proposed to meet these conditions, the principal of which I shall here discuss.

PROPOSED REMEDIES CONSIDERED

The remedy most frequently suggested as a protection to the depositor is some form of guarantee of bank deposits. This guarantee may take the form of compulsory insurance for the payment of deposits or compulsory contribution on the part of all banks to pay deposit losses in failed banks or a direct governmental guarantee under which the taxing power of the state would be used to pay losses to depositors in failed banks. Several of the states in the Union have enacted guarantee of deposit laws but in every case the operation of the law has proven unsuccessful.

A system of banking with a deposit guarantee superimposed upon the local bank by governmental authority under which some other instrumentality than the bank itself undertakes to insure the safety of deposits, will not prevent the local bank from failing if it can not maintain a successful operation as a business enterprise. If local economic conditions are unfavorable to such a bank and if the loans are not properly made or become frozen after they are made with reasonable care, the bank will have to close its doors. No system of guarantee of deposits under such conditions will serve to keep the bank open. In other words, whereas a system of guarantee of bank deposits might theoretically give the depositor a 100 per cent protection against loss in case of the failure of the bank such a system can not be said to be a remedy for the failure itself.

Several students of the banking situation, recognizing the difficulties under which the small country bank now operates, have suggested as a remedy for the failure of these banks and the improvement of rural banking conditions a Federal statute requiring a minimum capitalization of \$100,000 for national banks and a similar provision by the various states. The theory of this proposal is that such a provision will automatically decrease the number of country banks and will compel the formation of stronger banking institutions. Under this plan if the

conventional ratio of 10 to 1 is maintained, there would be no banks in the United States with deposits of less than \$1,000,000. This proposal is open to several serious objections.

Such a plan to be successful would require complete legislative cooperation on the part of the state governments as the minimum capitalization of national banks has always been higher than that required as a rule by the state laws. The present minimum capitalization of \$25,000 for national banks as now required is too high for state banks in many states. In other words, the present capital requirements for national banks has not had the effect of causing state legislatures to require the state banks to adopt a similar standard. On the contrary, Congress, by the act of March 14, 1900, reduced the minimum capital for national banks from \$50,000 to \$25,000, thus lowering the standard toward that of the states.

One of the most natural effects of such an increase to a \$100,000 minimum for national banks would be to cause hundreds of national banks to take out state charters and thus remain in operation. The operating conditions of the banks in the rural districts are the same for both national and state banks and any comprehensive remedy looking to an improvement of the rural banking situation must embrace directly or indirectly both state and national banks.

There are thousands of communities in the United States where banks are now operating which would be deprived of all local banking services if the minimum capital for country banks were placed at \$100,000. This would mean that these local communities would be put to the inconvenience of going considerable distances, especially in the less densely populated agricultural states. Such a situation would naturally result in hoarding of funds and this would be a backward step in the development of the country. Banking develops business in a community and every community should have convenient

access to banking services. In our desire to create a sound system of rural banking we must guard against the establishment of safety at the expense of the convenience of hundreds of thousands of citizens who ought to have immediate access to banking facilities.

In this connection permit me to survey the distribution of banking capital in the United States. Taking the figures as of June 30, 1929, there were in the United States 5,468 incorporated banks with capital of less than \$25,000. There were an additional 5,357 banks of \$25,000 capital; 6,031 banks with capital above \$25,000 but not exceeding \$50,000; and 1,073 banks with capital above \$50,000 and up to but not including \$100,000. In other words, there were on June 30, 1929, 17,929 banks in the United States capitalized at less than \$100,000 each. The total number of banks was 24,912, which leaves only 6,983 banks in the United States having a capital of \$100,000 and above, and nearly half of these have only \$100,000 capital. As has been shown, practically all of these small banks are in cities and towns having a population of less than 10,000.

In connection with proposed remedies for the country bank situation it may be appropriate here to mention some of the aspects of the relationship of country banks to large city banks as correspondents. There have been certain proposals put forward within recent months which recognize the difficulties which small country banks face in attempting to operate alone and independently, and which suggest as a remedy an intensification of the correspondent system. Under this suggestion the country bank would through voluntary cooperation draw closer to the large city banks and receive from them through conferences and contact of personnel the proper guidance in the direction of safe and sound banking. The technical banking experience and approved metropolitan banking methods and services would be made available to all the correspondents of a given metropolitan bank in so far as the country bank could and would receive them, and

the metropolitan bank would, as compensation, in return gain a greater volume of banking business by virtue of the acceleration of the contacts with their country correspondents.

There has grown up over a long period of years the present system of bank correspondents in the United States. As a general rule the country bank is a correspondent of some New York bank, as well as of other metropolitan banks in the large commercial centers. It is a business relationship which facilitates the interchange of credit and, with respect to New York City, large deposits of country banks are from time to time carried with the New York banks for temporary investment. Disregarding, however, the operation of depositing money on call in New York, *the normal relationship between the country bank and its city correspondent may be reduced to about four elements: First*, the deposit carried with the city bank upon which interest is paid to the country bank; *second*, the opportunity afforded to the country bank to purchase securities from or upon the advice of the city bank; *third*, the privilege given the country bank of borrowing from the city bank; *fourth*, the opportunity afforded the country bank of seeking the direction and guidance of the city bank in questions of bank policy and bank management.

It is the last of these relationships which it is now proposed should be developed more concretely to the advantage of the country bank. *In this connection, however, it should be observed that a single country bank may have city correspondents in several cities. To which of these correspondents should the country bank attach itself—to New York City for example or to St. Louis?*

It should also be observed that the correspondent relationship is purely voluntary and therefore not enforceable as a banking policy. There is no responsibility upon the metropolitan bank for the policies and operating methods of its country correspondents. Neither is there any obligation on the country bank to accept the advice

of its city correspondent. On the contrary, *experience has shown that the country banks feel completely independent of their city correspondents, being free at all times to change from one bank to another. There is more concern upon the part of the city bank to hold the business of its country correspondents than upon the part of country banks to embrace the tutelage of the city bank.*

The system of correspondent banks has been in full force and effect throughout the postwar period in which we have witnessed small bank failures at the rate of more than five hundred per year. Each of these failed banks was a correspondent of a New York metropolitan bank and of other metropolitan banks. There was no obligation on these city banks to protect the local depositors of their country correspondents and no such efforts were expected to be made. The correspondent relationship is strictly a business transaction in which each party receives some advantage. It can easily be understood how a constructive intensification of this relationship especially upon the side of bank policy and bank management might prove of great benefit to the country banks, but I do not see how the development of such a relationship would prove any positive protection to country bank depositors in case the country correspondent became insolvent. In such a case the burden would have to be borne, as it is borne now, by the community in which the country bank operates. It would not be transferred to the broader shoulders of the metropolitan city correspondent.

The city banks are naturally interested in the policies and management of their country correspondents but the amount of interest taken and the amount of constructive advice given in each case depends upon the value of the account of the country bank. The credit accommodation extended by the city bank is based largely on the credit balance maintained with it by the country bank.

The remedy most frequently suggested for the failure of small banks is the inauguration of better bank management. The principal advocates of this remedy are those

familiar with or engaged in banking as it is carried on by the large city banks. Their study of the small bank situation—especially the small country banks—has shown certain weaknesses in management, such as lack of a sound and definite loan policy; the lack of adequate credit information; the failure to build up an adequate liquid secondary reserve of securities; a lack of adequate knowledge of the securities market; the failure to obtain a diversification of loans, that is to say, too great a proportion of the loans are made upon the same class of security or credit.

No one who has made a comprehensive study of small country banks can deny that the above conditions exist. Their chief significance, however, lies in their comparison with the operations of the metropolitan banks. It has never been convincingly pointed out exactly how these small country banks could adopt these more approved methods of banking. Educational campaigns have been suggested as a means of bringing the situation home to the country banker. In fact, discussion of improving country bank management has been going on for the past ten years with no very gratifying results.

To invite the small bank to adopt the efficient methods of the large city bank would be to ask it to lift itself by its own boot straps. As a remedy for country-bank failures the establishment of improved banking methods is theoretically sound but impossible practically of general realization. The business is too small in volume, too limited in diversity, and too circumscribed geographically to create a normal motive for the establishment of the high type of management possessed by the city banks.

PROTECTION OF THE DEPOSITOR THE PRIME CONSIDERATION

In most of the discussions of branch banking the depositor seems to have been lost from view. It is said that branch banking will lead to a restriction upon local loans—that the borrowers will suffer. To this theory I

do not subscribe. It is unreasonable to suppose that banks will make substantial investments in branches without any expectation of developing the business of the branch. This can not be done by draining the community of its cash. It can be done only by rendering to that community a scientifically balanced banking service including the making of loans as well as the receiving of deposits. Doubtless it will be developed during the course of these hearings that there are many instances where the necessities of a community have been such that the funds supplied by the parent bank for loaning purposes have far exceeded those which have been received in deposits.

Certainly it would be possible for the parent bank to develop a diversified banking business to protect it against economic depression in any one locality or in any one industrial activity or business enterprise. I am, however, more concerned with the depositor, especially the savings depositor, than with the borrower, and have therefore approached the question of branch banking as a remedy from the standpoint of safety to the depositor and to the local shareholder. It is the importance of this phase of the question which I desire to bring before your committee for further study.

There are great commercial centers in the various regions of the United States. In these commercial centers there have been developed great metropolitan banks among which there have been no failures during the period we have under discussion and no depositor in those banks has suffered a loss. *The laboring man and the small wage earner in these cities is receiving a stronger protection and a higher and better type of banking service than is possible for the farmers and small business men who must do business with country banks.* I have therefore put forward for further investigation and study by your committee the question of the desirability of bringing these country banks into a more direct and closer relationship to city metropolitan banks than is possible under any voluntary extension or intensification of the

correspondent relationship. If there is permitted to grow up, through branch banking strong metropolitan banks in commercial centers outside of New York City with the right to open offices in the rural economically tributary communities, it would naturally follow that in time these small country banks would to a very large extent become branches or offices of such city banks.

THE TRADE AREA

In my annual report I suggested that it might be found feasible to permit national banks to extend branches into the trade area of the city in which they may be situated. I realize that while the term "trade area" itself is susceptible of definition, there may be found some practical difficulties in mapping out a given trade area. Theoretically of course every city, no matter how small, might be said to have a trade area but it would prove no solution at all to the rural bank situation to permit small country banks to establish branches in such trade areas.

The trade area which I have in mind may be called the metropolitan trade area. Such an area would circumstance the geographical territory which embraces the flow of trade from the rural communities and small cities to a large commercial center. Branch banking extended by metropolitan national banks into such a trade area would naturally give to these outlying rural communities and smaller cities a strong metropolitan banking service.

I am not prepared to attempt to arrive at a legislative formula which would automatically delimit all of the trade areas in the United States. It does not seem possible to meet this situation with such a formula. When the Federal Reserve Act was before Congress a similar situation arose with respect to the Federal reserve district. In that act of Congress did not attempt to define the boundaries of the districts but provided that the districts should be apportioned with due regard to the convenience and customary course of business and that they should not necessarily be coterminus with any state or states. The

Secretary of the Treasury, the Secretary of Agriculture, and the Comptroller of the Currency acting as a committee were empowered to lay out the districts.

The twelve Federal reserve districts thus laid out and the subdistricts within them as established by the Federal Reserve Board constitute to-day the only areas which have been delimited upon the basis of the relationship of the flow of trade to banking services.

It may be found advisable to adopt a similar procedure with respect to the present situation if it is determined that national banks shall be permitted to have branches in the rural districts. In this connection the question will naturally arise as to how far the Federal reserve districts or subdistricts are applicable to this question of branch banking.

DECENTRALIZED BRANCH BANKING

It has been urged as a consideration against branch banking that legislation permitting its extension to the rural districts would lead to the concentration of all of the banking capital in the United States in New York banks and under the control of a comparatively small group of financiers.

It might be possible theoretically to conceive of this situation arising if Congress permitted the national banks to engage in nation-wide branch banking at the present time, although many students of banking and many practical bankers are of the opinion that even were nation-wide branch banking permitted by law its spread would be a slow development out from the various commercial centers; that the country is too large and its financial operations on too vast a scale to permit of complete concentration in New York City. The banking resources of the United States are constantly increasing as the country develops industrially and commercially. At the present time they aggregate about \$72,000,000,000 and within another decade may approach \$100,000,000,000. *With great commercial cities developing in various parts of the country*

outside of New York, it would seem an extravagant prospect to contemplate the control over these resources within a few hands in a single city.

However, the proposal which I have brought for the consideration of your committee would, it seems to me, clearly tend to decentralize banking capital through a system of regional branch banking. The metropolitan banks in the city of New York have always held a preeminent position and under any system of banking which would follow the normal course of business they will continue to increase in size and influence. Notwithstanding this aspect of the matter, branch, banking emanating from commercial centers outside of New York City into surrounding trade areas would cause the New York banks to decrease in relative importance. There would be concentration of capital but it would be a regional concentration with local characteristics. Banks in Detroit, Cleveland, Boston, Atlanta, New Orleans, St. Louis, Buffalo, Minneapolis, and other such local commercial centers would grow into institutions fully capable of taking care of the financial requirements of their trade area communities. Instead of nearly all of the largest banks being situated in New York City there would be in every such commercial center banks whose resources would approach or exceed a billion dollars. Instead of being a menace would not such banks become a source of pride to the community in which they are situated, bringing prestige and new business to the city and taking out to the rural communities a strong and highly developed banking service with safety to the depositors there? Would not such a system of branch banking lead to an active competition for business which would naturally result in the local community obtaining cheaper and better banking service?

Some critics of our banking system take the view that we have too many small banks and that one of the chief causes for bank failures has been the issuance of an excessive number of charters by the state and Federal governments. Theoretically, of course, if no banks were

chartered there would be no bank failures. There is no way by which the number of banks can be categorically determined in advance and consequently the laws of all of the states and of the Federal Government have left the discretion to the supervising executive officials. It comes down to a plain question of human judgment. If no more bank charters were issued, for example, in communities where all of the banks had failed the Comptroller of the Currency or the state banking superintendent as the case may be, would have to take the responsibility of denying banking services to such a community even though the new applicants for a charter possess the qualifications required by law and practice to carry on a small bank. In view of this situation *it can not be expected of the supervising bank officials to take it into their hands without further legislative sanction to reform the system of banking in the rural communities through the process of denying bank charters. My own point of view is that the rural communities are not supplied with adequate banking facilities. I should like to see the people of every community no matter how small have access to more than one strong bank with the banks competing for business. All persons should have the benefit which comes from a competitive banking service. Our present system of independent unit country banks can not provide it. Would not the system of decentralized branch banking which I have suggested meet this condition?*

GOVERNMENT CONTROL

It is recognized that a system of branch banking such as I have suggested would gradually bring about the development of greater banking institutions in the inland commercial centers and in the larger seaports of the country. These banks would be strong enough to resist the ordinary local causes of bank failures on account of the great diversity of their business. The only danger of failure would be in the management personnel and it is conceded that any bank or any sort of business institution can

be wrecked through mismanagement and maladministration. There can be no absolute protection by law or otherwise against this condition. It can, however, be so greatly minimized by governmental supervision that the danger of any such failure will be remote.

Should Congress adopt such a branch banking policy there should be an expansion and an intensification of Government supervision. There would have to be a more constant contact with management policies than now obtains. The number of banks would be less and it would be easier for the Government to supervise and examine more closely and more often the operations of such larger institutions. It should be borne in mind that such a bank would have no difficulty in securing capable management and that it would, on account of the great value of good will, be sensitive to public opinion. It would not wish to encounter the just criticism of a government official.

Congress has always recognized the necessity of maintaining adequate supervision over the national banks. The Comptroller of the Currency now has sufficient power to supervise the national banks in so far as examination into their affairs are concerned. The time and method as to examination is left to his discretion except that he must under the law examine each bank twice a year. What other powers the Government of the United States should exercise over such larger institutions which would come into existence under the extension of branch banking I am not prepared at this time to recommend, but should the committee desire to go further into this question the office of the Comptroller of the Currency will be at its service.

GROUP BANKING

In conclusion I feel it necessary to make some remarks with respect to a comparatively recent banking development which is coming to be known as group banking. Before proceeding further, however, I think that we should attempt to get down to definitions. In current

discussions the terms "chain banking" and "group banking" are sometimes used as synonymous and sometimes as opposed to one another. Frequently the phrases "chain and group banking" and "chain or group banking" are used.

The term "chain banking" has been in use for many years in this country to describe a condition in which a number of banks were owned or controlled by the same individual or by a group of individuals. These so-called chains were situated very largely in the rural districts and the member banks of the chain were principally small country banks. This condition was and still is quite prevalent in the agricultural regions of the West and South. Many of these chains have come to disaster through the failure of all of the banks which constituted them. During the many years this type of bank ownership has been in existence it was not considered as a trend toward a fundamental change in our banking system nor did it relate itself to the question of branch banking. On account of the failures of several of these chains the term "chain banking" began to carry with it an element of disfavor.

The term "group banking" is of very recent origin and is being used to describe what appears to be a major movement in our banking system. The principal factor in group banking is that each group is centered around a city or metropolitan bank through means of a holding company, which owns the majority of the stock of each bank, thereby creating a system of banks more or less integrated in management with the central bank of the group. Its one common factor with the older type of chain banking is that several country banks may be owned by a single agency. In this discussion, therefore, I shall use the term "group banking" to mean the ownership and some element of operating control of several banks through the medium of a bank holding company.

From the character and standing of the bankers and other business men engaged in some of the principal

groups in this new group-banking movement I have no doubt that they will be able to work out a system which will be profitable to the group company and give a safer and better banking service to the communities in which they own banks than was possible under the system of rural unit banking. For reasons heretofore stated, I am not in a position to give to your committee first-hand and authoritative information as to their operations.

I may say, however, that I naturally look upon this movement from the standpoint of a supervising official of the Government rather than from that of an operating banker, that is to say, I am concerned not with the question whether the movement is profitable but rather whether it is desirable from the standpoint of the public as a system of banking. *The movement is new—hardly a year old—and your committee may find that it gives promise of better banking than the system of rural banking now generally in force. On the other hand, your committee may find that this new movement may be regarded as a temporary and transitional development, constituting a normal prelude or introduction to branch banking.*

While perhaps my views may be immature, in view of the lack of opportunity for an exhaustive study of a movement which is so new, *I am inclined to the view that group banking under its existing forms is not desirable as a permanent system of banking. Where a group is composed of both state and national banks, as well as of other types of financial institutions, it becomes practically impossible for any supervising governmental official to ascertain authoritatively and accurately the financial condition of the group as a whole.* Each corporation in the group is an independent legal entity, some responsible to state governments, and some, that is, the national banks, to the National Government, while other state bank members of the Federal reserve system are responsible to both state and national governments, and this creates a situation in which the public is not sufficiently protected, in so far as it can be protected by governmental authority.

If a group were all national banks and the holding company were placed under the visitorial powers of the Comptroller of the Currency it would be possible, although difficult, to supervise the operations of the group. I may say, however, that if the Comptroller of the Currency be given visitorial powers over bank holding companies engaged in group banking, the Government would be in a position to obtain information as to their operations and would be in a better position to regulate and control them by subsequent legislation should such action be deemed expedient.

In the case of branch banking the situation is different. Under the regional plan which I have discussed there would be no need of an operating holding company. The parent bank would be the only corporation in operation and it would have offices in various places within the trade area. There would be only one board of directors and one set of corporate minutes. The formulation and initiation of the policy for the bank would be subject to a single responsibility and the Comptroller of the Currency (or the state superintendent in case of a State branch system) could at any time determine the true financial condition of the bank with all its branches.

THE RISE OF MULTIPLE BANKING IN THE UNITED STATES²

In its present aspects, branch banking is a development of the present century and has become of significance only in the past ten years. In 1900 there were only 60 branch banks in operation; in 1920 there were slightly more than 1000, while at the present time there are approximately 3500.

It may be noted in passing that while the present interest in and extent of branch banking is of recent origin,

² From an article by Virgil Willit in *American Mercury*, p. 144-8, June, 1930.

it is by no means without precedent in earlier American banking history. The First and Second Banks of the United States both made use of branches, the latter having twenty-five in various cities of the country. The State Bank of Indiana and the State Bank of Ohio, two of the most successful institutions of pre-Civil War days, also operated through branches.

But the adoption of the national banking system during the Civil War changed the course of bank development in regard to branches, as it did in many other particulars. The imposition of the 10 per cent tax on notes issued by state banks practically drove such banks out of existence for a considerable number of years and left the field of banking to the national banks, which were not allowed to establish branches. By the time it was found that banks could operate very well without issuing notes, which discovery led to the reestablishment of state banks, the policy of unit banking was so firmly fixed that very few state institutions desired branches and in many states they were prohibited from having them.

However, as already noted, after 1900 and especially after 1920 branches of state banks became increasingly numerous, and branch banking became an important problem and the subject of a vigorous controversy. This controversy has had two aspects. Within the states there has been the question as to whether the state banks should be allowed to have branches and if so, to what extent. In the national banking system the issue has been whether the national law should be changed so as to enable the national banks to establish branches in order to compete with the state banks.

The National Bank Act as passed in 1863 did not expressly permit or prohibit branch banking but one of its provisions has been interpreted as denying to national banks the right to establish branches. The provision referred to required national banks to state in their organization certificate "the place" where their operations were to be carried on, and this was held to mean that the bank

could carry on its operations only at the place so specified, so that national banks were until recently, not permitted to establish branches even within their home cities. By rulings of the Attorney-General, in 1911 and again in 1923, national banks gained permission to establish offices within the same city for the purpose of performing such routine administrative functions as the receiving of deposits and the cashing of checks, but such branches could not carry on any work which required the exercise of any considerable amount of discretion, such as the granting of loans. State banks which possessed branches could retain them when they took out a national charter or when they were absorbed by a national bank, so in this way some few national banks possessed branches before they were permitted by law directly to establish them.

The right to establish branches, coupled with various other more liberal privileges which they possessed, gave the state banks such great competitive advantages that they gained rapidly in importance in comparison with the national banks. Many national banks took out state charters in order to gain these privileges which were denied them under the national law. In 1884 the national banks possessed 75 per cent of the total commercial banking resources of the country; in 1926 that proportion had dropped to 46 per cent and today it is less than 40 per cent. These changes began to raise serious questions as to the future of the national banking system. And as the national banks form the basis of the Federal Reserve System, the matter had serious implications for that system.

It gradually became clear that either the national banks must be granted branch privileges or that the right of state banks to have branches must be curtailed. Bankers themselves were sharply divided upon the question. In 1923 the Federal Reserve Board attempted to place the national and the state member banks upon a more equal basis. It declared that "as a general principle, state banks with branches or additional offices outside the cor-

porate limits of the city or town in which the parent banks are located or territory contiguous thereto, ought not be admitted to the Federal Reserve System except upon condition that they relinquish such branches or additional offices," and further, "that, as a general principle, state banks which are members of the Federal Reserve System ought not be permitted to establish or maintain branches or additional offices outside the corporate limits of the city or town in which the bank is located or territory contiguous thereto."

This action of the Board, however, was not sufficient to settle the matter and an appeal was made to Congress to come to the aid of the national banks. After a prolonged and bitter fight the McFadden Act of 1927 was passed. This act contains a number of provisions designed to place the national banks on a more equal competitive plane with the state banks, but we are concerned here only with those which relate to the matter of branch banking. By this measure national banks for the first time were given the right to establish branches directly, but under important restrictions. No branches are permitted in towns of less than 25,000 population; one branch is allowed in towns with populations up to 50,000, two branches if the population is between 50 and 100,000. In all larger cities the number of branches that may be established is at the discretion of the Comptroller of the Currency.

The McFadden Act modified the resolutions of the Federal Reserve Board noted above by providing that state banks possessing branches outside the home city could become member banks and still retain such branches, provided they were established prior to the approval of the act. While the act was a compromise it was generally regarded, because of the limitations imposed upon branches, as a victory for the opponents of branch banking.

It has signally failed to settle the branch bank question and to check the desertion of national banks to the

ranks of state banks. In 1929 national banks with resources of approximately \$3,000,000,000 surrendered their charters. The number of national banks operating branches is very small, only 164 on June 30 last. This is but 19 more than at the time the McFadden Act was passed. These banks have 992 branches. The question of branches for national banks is more of an issue than ever. Before considering the fundamental factors involved in the problem it is best to turn a consideration of the more recent development in the field, namely, group banking.

For many years single individuals or groups of individuals have owned the majority of stock of more than one bank but such cases were not numerous enough to have any great significance. But within the past two years group banking, as it is now termed, has developed with startling rapidity. It is now the all-absorbing topic at almost every bankers' conference. It is a new and unforeseen attack upon the unit banking system. And it is apparently a more dangerous attack than that of branch banking for there has not been developed as yet any adequate legal means of checking it. Group banking is threatening to sweep the country and its opponents are endeavoring frantically and vainly to find measures to check its progress.

The growth of the Northwest Bancorporation well illustrates the rapidity with which these groups have expanded. The group was organized in January, 1929, with five member banks. Ten months later it controlled 82 banks, located in 69 cities in 8 states, with resources of \$462,000,000. This one group controls 9 per cent of the banking resources in these eight states. In Minnesota, where it is most powerful, it controls 23 per cent of the bank resources.

When one considers that group banking is still in its early infancy, its growth is thus seen to be startling. Three years ago unnoticed and unremarked, today controlling one-fifth of the nation's banking resources! What have been the causes which have produced this

movement which is sweeping the country with apparently irresistible force?

Like most fundamental economic changes, it can not be attributed to any one single cause. Its genesis must be traced to a variety of causal factors. In seeking to discover these factors we may distinguish between the direct and immediate incentives which impel men to form these combinations and the more fundamental causes and conditions which make them feasible and perhaps justifiable. The immediate incentives are very similar to those which have produced periods of mergers in other lines of business.

If an industry that is already suffering from overdevelopment is hit by a general business depression those within the industry who weather the storm are likely to lend a willing ear to the artful suggestions of a promoter of a combination. Such, very lately, was the state of mind of bankers in many sections of the country. This was especially true in the Northwest, where the development of group banking has been especially rapid. The sponsors of these groups have declared themselves to be actuated solely by a desire to improve the banking and general business conditions of their district. One of them has said, speaking of his own group, "The only motive that has been discussed and that has brought about the formation of this group has been what was the best way to facilitate and advance the present business and future growth of this district. . . . This territory has been retarded in its progress and development because of unsettled and unsatisfactory general banking conditions, brought about chiefly through economic condition, and, . . . we have come to believe that . . . there could be no question as to the benefits that would accrue to the banks in the group and to the territory as a whole."

While recognizing that oftentimes there may be a considerable difference between declared motives and actual motives in transactions of this sort, we can rea-

sonably believe that this statement does explain in large part the formation of bank groups in this territory. The abler and more farseeing bankers appreciate the fact that the undoubtedly bad banking conditions which surround them react unfavorably upon the growth and success of their own institutions. Rather naturally, they believe that if they could give these other banks the benefit of their own experience and ability, that conditions would be considerably improved. Generally they have experienced little difficulty in inducing other banks to come into the combination. The same conditions which induced the promoters to form the group are an incentive to the other banks to become members. One banker, speaking on this point, has said, "I doubt whether there is a single group organization of any importance that does not have a waiting list of independent banks that are willing to negotiate a trade or sale of their controlling stock. Only recently it was stated that one of these organizations had a list of 100 waiting banks."

But while the desire to remedy fundamentally bad banking conditions as a measure of self-defense has been the compelling motive in forming some groups, it obviously has not been in the case of others. The formation of such groups as the gigantic Transamerica Corporation must be attributed to other causes. Undoubtedly the reason for the organization of many groups has been the desire on the part of the promoters for power and profits. The holding company offers the aggressive and ambitious banker the same opportunity to extend his power and domination that it does to leaders in other fields of business. The strange thing is not so much that bankers are making extensive use of the device now but that they have delayed thus long in doing so.

Another factor of significance in explaining the formation of groups has been the increase in value of the stocks involved that has usually resulted. The Bancohio Corporation, which controls a small group operated in

Ohio, affords a nice illustration of this point. The central bank in this group is the First Citizens Trust Company, of Columbus. For some time before the formation of the corporation the stock of the First Citizens was selling around 217. Then the rumor began to spread that a combination was being formed and the price began to rise. As a result the price stood at 230 when the formation of the Bancohio was publicly announced. The terms of the combination provided that $7\frac{1}{2}$ shares of stock of the Bancohio would be exchanged for one share of First Citizens stock, and the flotation price of the Bancohio stock was 43. Thus one share of First Citizens, which shortly before was selling for 217, was exchangeable for stock which had a market value of $322\frac{1}{2}$, an increase of $105\frac{1}{2}$ points. It may be noted in passing that even now, after the great decline in stock prices, Bancohio stock is selling at 36, so that what was one share of First Citizens worth 217 is now represented by stock having a value of 270. As long as such things are possible, need one ask why bank groups are formed?

The fact that the market values the stock of the holding company more highly than it did that of the constituent companies indicates that it expects that the operating profits of the banks will be greater as a result of the merger. Upon what is this expectation based? Is it a reasonable one? In some cases it probably is; in other cases it is very questionable. If a higher degree of managerial ability is furnished the banks, it may be that profits can be increased by reducing losses, by making investment more intelligently, and by increasing the volume of business by aggressive competition, and by offering facilities which independent banks may not be able to offer. The experience of the great English banks, however, leads us to doubt if this will be the general result. Sykes, in his admirable study of bank amalgamations in England, found that the ratio of profits to total resources decreased as a result of the mergers

and the establishment of branches. He attributed this to two causes: first, a proportionate increase in expenses, as the expenses of the smaller absorbed banks and of the branches are relatively higher than those of the parent bank; second, a decrease in gross earnings, as a result of the keen competition which the amalgamations engendered.

This matter of competition suggests another potent cause leading to the formation of branches and groups. Once started, the formation of a few branches leads to the formation of still others, partly as a matter of pride and partly as a means of self-protection. An English example well illustrates the extent to which this competition may go when it becomes well-developed. In April, 1914, when Lloyds bank of London announced that it had acquired another bank with an extensive system of branches, one of its chief rivals, The London City and Midland, within twenty-four hours made preparations to open immediately no fewer than seventeen new branches in the same area. The experience of other businesses shows us that competition is keener between large organizations than between small ones. Chain stores compete more directly than do small independent merchants. We may expect that the same vigorous competition that exists at present between large banks in large cities will be extended to the small banks and the small towns with the growth of bank chains and groups.

THE CASE FOR MULTIPLE BANKING EXAMINED³

In the first place, it is maintained that group and branch banking eliminates the dangers inherent in small banks. Among these dangers are poor management, due to the fact that small banks can not afford to employ

³ From an article by Virgil Willit in *American Mercury*. p. 149-52. June, 1930.

competent and experienced managers; the undue influence of local and personal considerations in making loans; lack of adequate capital; and lack of diversification in the making of loans and investments, due to the small amount of funds available for use.

The small country town bank constitutes the greatest point of weakness and of danger in our banking system. From 1921 to 1928 inclusive, about 5000 banks closed their doors and tied up deposits of more than \$1,500,000,000. In four states from 40 to 53 per cent of all the banks in existence in 1920 failed by 1928; from 20 to 40 per cent in six states; and from 10 to 20 per cent in ten other states. In other words, one-sixth of the banks in existence in 1920 failed by 1928. And the significant thing is that 80 per cent of these failures occurred in towns of less than 3000 population and about 70 per cent of the failed banks were capitalized at \$50,000 or less. As the Comptroller of the Currency has said, this record "is a serious indictment against the system of banking in the rural communities of the United States" If either group or branch banking offers a remedy for this condition, as it is asserted that they do, it is sufficient excuse for their existence.

Further, chain banks are supposed to be able to offer better and more extensive service to customers than can independent banks. The customers of a branch bank, and to a less extent of a group bank, have available to them all the services performed by the parent institution. Chain banks are usually in a better position than small unit banks to offer experienced investment advice and service, to perform trust services and to finance foreign trade transactions. They can also better and more safely take care of large borrowers.

A third advantage of chain banking, it is maintained, is the increase in the mobility of bank funds. Through the medium of branches or members of the group, funds can be easily and quickly transferred from regions of plenty to regions of scarcity. The economic utility of

such a service is obvious. This is an argument, however, that is susceptible of being used on both sides. The opponents of chain banking assert that this means that local enterprises will be denied credit for the benefit of speculators and other large borrowers in distant cities.

Finally, and what is perhaps the most fundamental argument of all, it is asserted that larger banking units are needed because of mergers and chains in other lines of business. The banking system exists to serve the needs of commerce and industry. As the organization of commerce and industry changes, banking must also change to adapt itself to the new conditions. Consider, for example, the effect of the chain store upon the business of the local independent banks. The problem of the chain store account is an irritating one with many a banker. Some chains maintain a policy of keeping accounts with the local banks which are sufficient to compensate them for the services which they secure from them. Other chains keep their local accounts down to the minimum. But very rarely does a large chain organization borrow from a small local bank. So the chain store not only deprives the bank of a part of its deposits but also of a still larger part of its loans. And it is on its loans that a bank makes its profits. It is to such changes as this that our banking system must adjust itself and group and branch banking offer two possible methods of making the adjustment.

The great amount of opposition to chain banking indicates that all the advantages are not on one side of the question, however. So we may now turn to a consideration of the objections that have been urged against chain banking and of the merits of unit banking.

The most frequently used and the most heavily stressed criticism against chain and branch banking is that it destroys the individual initiative and the personal element in banking. Chain banking necessarily means routine and red tape banking. The manager of a chain

bank is bound by rules, regulations, and current instructions issued by the parent institution. His power of discretion in granting loans is greatly limited. The worthy young farmer or business man who possesses character and ability but little capital would find much greater difficulty in securing credit from a chain bank than from an independent one, so it is claimed. The rapid commercial and industrial development of the United States, the advocates of unit banking point out, have been due in large part to the fact that the interests of our bankers have been tied up with the interests of the community in which they live. They have been willing to finance industries and businesses which might never have had a chance if they had been dependent upon chain banks. In this connection Canada is often pointed to as a warning. It is alleged that the more tardy economic development of that country has been due to its chain banking system, that the individual initiative and enterprise which has been so characteristic of the United States has been stifled in our northern neighbor because of the difficulty of obtaining credit by any except well-established businesses. While undoubtedly the banking policy of the United States has contributed to the rapid development of the country, the question may well be raised as to whether the price we have paid in the form of over-developed industries, business and bank failures has not been too high.

In a similar vein run the criticisms that the chain banks discriminate against the small borrower; that they drain funds away from the small communities and local borrowers to lend them out to speculators and large corporations. The traditional American argument against centralization of power, and especially of financial power, is frequently brought forth. One banker in an alarmed state of mind inquires, "Are we to drift into financial middle-age feudalism, where we are economic vassals either of the Federal government or of a few big city

corporations who know us not and whom we may never see?" A former comptroller of the currency has said, "To say that if a large proportion of the banking interests of a state are centralized in the hands of five or six or a dozen branch banking institutions and that these institutions will not combine, either as a result of direct conferences or agreement or of mutuality of interests, is to ignore the fundamental basis of human action."

A special problem in connection with chain banking that has troubled government banking department officials is that of their proper examination. Bank examinations by government officials are unknown in many countries, but in the United States we have long regarded them as being essential to a sound banking system. The branches of a branch bank or the members of a group of banks are closely interdependent and in order to learn their true condition a simultaneous examination of all is necessary. Besides the technical problems involved, which are difficult but not insurmountable, there is the problem of divided jurisdiction in making the examinations. Some of the banking groups are composed of both national and state banks scattered in a number of States. Their examinations are thus in the hands of a number of different banking departments, with little or no cooperation between them. It may be suggested that such cooperation is not impossible but a knowledge of the work of some of our state banking departments leads one to doubt if it would be satisfactory.

The growth of chain banking raises serious questions as to the effect of such banks upon the Federal Reserve System. That system was organized and constructed to fit into a system of independent banks. Presumably if the basic structure of our banking system changes, this will necessitate important changes in the policies and methods of the Federal reserve banks. This opens up a wide field for interesting speculation. Only one or two of the possible changes involved will be suggested here.

Chain banking renders the banks concerned less dependent upon the Federal Reserve Bank for discounts and loans. The Federal Reserve Bank draws into a common pool the reserve funds of its member banks. From this pool the members are privileged to draw in order to meet unusually large occasional and seasonal demands of their borrowers. But a wide spread system of branch or group banks can eliminate the necessity for drawing upon this pool. In such a system it is not probable that all the banks will experience their heaviest demands at the same time, so that the needs of banks which are experiencing large withdrawals can be met by drawing from banks which have relative surpluses. This would remove or at least weaken one of the great advantages of membership in the Federal Reserve System. In fact it might mean that the costs of membership might outweigh the benefits and so lead to extensive withdrawals from the system. That branch banking does result in a lessened dependence upon the central bank is well shown by the case of the Bank of England. In October, 1929, the amount of discounts and advances made by the bank was approximately, in terms of dollars, \$29,000,000. Contrast this with the \$960,000,000 of discounts made by the Federal reserve banks at the same time. The problem of credit control, which has so baffled the Federal reserve authorities, threatens to become an even more difficult one with the extension of chain banking.

In England the relationship between the large joint-stock banks with their thousands of branches and the Bank of England has become a matter of serious concern. In 1918 Sir Charles Addis declared, "It may be questioned whether the gigantic size that they have already attained does not constitute a menace to the predominant position which the Bank of England has hitherto enjoyed as the Bankers' Bank. How will the Bank of England be able to maintain its supremacy surrounded by banks individually greater and more powerful than itself?" . . . Sykes, writing several years later,

said, "there is no doubt that, from the point of view of the preservation of the status and authority of the Bank, further large combinations are undesirable."

The question as to the relative merits of group and branch banking is another interesting matter that can not be entered upon here. It is sometimes assumed that group banking is simply the result of the restrictions upon branch banking and that if these restrictions were removed the group banks would be converted into branches of a parent institution. In some cases this undoubtedly is true. The head of one group of banks has publicly stated, "Were the restriction against branches removed today, the directors of my corporation would undoubtedly take steps immediately to convert its ownership of banks into a branch banking system." But that this is not true of all groups is shown by the fact that in a number of states which place no restrictions upon branches, notably California, there are several groups of banks.

The chief contention in favor of group banking as against branch banking is that it preserves a greater measure of local control and independence and so is less subject to the criticisms that it discriminates against small borrowers, that it refuses to make loans based on character and ability, and that it deprives local businesses of loan funds.

On the other hand, it is maintained that branch banking is a simpler and more direct method of accomplishing the same objectives aimed at in group banking. Comptroller of the Currency Pole stated at the recent convention of the American Bankers Association that, "the group can never be operated with the economy, the flexibility and the singleness of policy which is possible under a branch system." Better protection is afforded to depositors in that the entire capital and surplus of the bank is back of each branch. The diversification of risks and the spreading of losses is more directly accomplished by branch banking. If the group of banks is owned by a holding company the significance of double liability

upon the bank stock is lost unless the holding company has an actual capital and surplus that is twice the par value of the bank stock held.

BRANCH BANKING IN THE UNITED STATES AND CANADA *

The American banking system, owing in the main to governmental restrictions, but also to other causes, is preponderantly a system of independent unit banking, with a complicated central banking system superimposed. In Canada, on the other hand, branch banking has reached very nearly its highest degree of development, virtually all the commercial banking of the country being done by some twelve banks, with over four thousand branches in the aggregate. The United States and Canada are sufficiently alike in their financial and economic structure and in the commercial habits and practices of their peoples to make this striking difference in banking methods an unusually valuable opportunity for comparing the merits of the two systems. In Canada, moreover, many persons feel that branch banking has been carried too far, while in the United States there is an important body of opinion which holds that branch banking has not been carried far enough. As a consequence, the merits and defects of the two systems have in each country been subjected to critical examination in the light of their respective experience. It is my impression, gained from my reading of English literature on banking, that even the well-informed Englishman is so thoroughly accustomed to branch banking as the normal method, that he takes its merits very much for granted, and is scarcely aware that there is much to be said, or at least that much has been said, against it. It may be of interest, therefore, to English readers to learn of the arguments for and against

* From an unsigned article in *The Economist* (London), p. 745-6. April 18, 1925.

branch banking which are current in both Canada and the United States.

Branch-banking, say its supporters, permits the collection of surplus capital from the surplus regions, and its economical transmission to the regions not so well endowed, relative to their capital needs, with accumulated wealth. It permits also the distribution of funds to different regions, according to their varying seasonal needs. Under branch banking the amount of local loans is, therefore, not limited, either permanently or seasonally, by the amount of local deposits, and interest rates tend to be equalised throughout the country, whereas under independent local banking interest rates would be low in the older, wealthier, and more stagnant communities and high in the newer, poorer, and growing communities. Branch-banking permits the fullest utilisation of the limited supply of banking brains by giving even to the smallest and most distant branch the benefit of the guidance of the banking experts at headquarters. A branch bank can easily withstand local runs and local depressions which would bring ruin to independent local banks in the affected districts, and can endure even a national financial crisis with less strain and with a smaller average reserve than could a system consisting wholly of independent unit banks. A branch bank can spread its risks over the whole range of industries in the country, whereas an independent local bank must perforce plunge heavily on the comparatively limited range of industries important in its locality. Small local banks are often organised by local borrowing interests, with the consequence, not conducive to sound banking, that the borrowers are themselves the judges of the limits which should be placed on their own credit. A branch bank can handle internal and foreign exchange business more economically than can small local banks; it operates on a large enough scale to make profitable the establishment of foreign agencies and of extensive foreign connections, and it can finance even the

largest enterprises, though located in the most out-of-the-way places, without the necessity of sharing the account with a number of other banks. A branch bank can afford to establish adequate banking facilities in even the smallest village where no independent local bank could survive.

These arguments are weighty. But the critics of branch-banking claim that some of its alleged advantages are not realised in practice, that others are equally available to independent local banks through arrangements between banks or through the services of a quasi-public central rediscount bank, and that there are important evils and dangers incident to branch-banking from which independent unit banking is either wholly or comparatively free. Most important of the objections to branch-banking are not those, however, which dispute its claim to being the most economical and most efficient way of conducting banking, but those which derive their strength from the fear of a banking monopoly, a "money trust," and from the parochialism, the loyalty to the locality, and the prejudice against centralisation, so powerful in both the United States and Canada. Competition between branch-bank systems appears to be more destructive and dangerous to the banks than competition between small local banks. The dangers of competition and the smallness in number of those who have to be brought into line if competition is to be eliminated have led in Canada to a degree of inter-bank standardisation of discount rates and credit policies not equalled in the United States. They have resulted also in the steady diminution in the number of banking systems in Canada, so that where not so long ago there were almost forty banks, there are now only twelve. It may also have been the result of an understanding between banks, facilitated by the fewness of banks, that bank employees, especially of the lower grades, have been one of the outstanding instances in Canada of a sweated trade, and have been required to take out their remunera-

tion in large part in the social prestige so carefully built up and maintained for them by the banks. In any case, the objective manifestations of Canadian banking have to the out-sider many of the stigmata of monopoly. Some degree of competition between banks unquestionably survives in Canada, but unfortunately the banks have succeeded better in eliminating those aspects of competition which profit the public temporarily at least, such as competitive bidding for loans by discount rate cutting and for deposits by raising interest rates, and have carried to an extreme degree those types of competition which profit no one, such as the construction of elaborate bank buildings and the excessive multiplication of branches in localities already adequately served. The proud boast of the Canadian banks, that, to take a typical year, 1913, there was a banking office to every 3,100 persons in Canadian cities, as compared to one office to every 9,700 persons in American cities, is really an argument against branch-banking, for it indicates that in this respect, at least, competition between independent local banks goes to less wasteful extremes than competition between branch banks. A leading defender of the Canadian banking system⁵ some years ago cited as an advantage of the system that "some 16 or 18 (it would now be a substantially smaller number) gentlemen in Montreal and Toronto can get together in a crisis, and in a few hours arrange a policy which will be followed absolutely by practically all the banking offices in the Dominion." Many persons feel that this is too great a power for a small group of men to possess, especially as there is no guarantee that it will be exercised only at times of crisis, and that when exercised it will be exercised wisely and with a view simply to the public interest.

The strength of local loyalty in both Canada and the United States serves to create opponents to branch-banking where in older countries, more densely populated, more closely-knit politically, economically, and senti-

⁵ H. M. P. Eckardt, in *Independent* (New York). December 23, 1909.

mentally, opposition would be less likely to show itself on this ground. In old communities, moreover, savers and borrowers are likely to be found in the same localities. In Canada the drawing-off of capital from the older East to help meet the needs of the borrowing West causes complaint in the Eastern, and especially in the Maritime, Provinces, who feel that they are thereby unjustly deprived of the low rates of interest and the vigorous development of their own industries and natural resources to which their accumulated capital entitles them. It is frequently alleged also that in Canada, under the branch bank system, the great concerns situated at or near Montreal and Toronto, where the head offices of the banks are located, are better taken care of, especially in times of stress, than smaller enterprises in distant localities.⁶ Witnesses before government investigating committees have cited cases where small towns which had head offices of small banks progressed less rapidly commercially and industrially, and paid higher rates of interest after these banks were absorbed by the great banks with head offices in Montreal or Toronto. It is charged also that under branch-banking the branch managers do not remain long enough at one branch to become thoroughly acquainted with the banking requirements of the locality and the credit needs of their local clients, and it has even been suggested that the banks are not disinclined to shift their branch managers about because it checks the growth of local attachments which might interfere with the general policies followed by headquarters for the apportionment of available funds. While it is reasonable to suppose that the shifting of personnel is not due to deliberate policy, but is the consequence of the rapid growth in the number of branches, to the normal process of promotion of staff employees, and to the low rates of pay which lead to frequent resignations, the rate of personnel turnover under the branch-bank system

⁶ In the Canadian House of Commons in 1913 Arthur Meighen, later to be the Conservative Premier of Canada, supported this charge from his personal knowledge. (See Hansard, February 12, 1913, 3,124.)

in Canada (and in California as well) is extraordinarily high, and compares unfavourably with the situation in the independent unit banks of the United States. Of the 360 branch managers in August, 1922, in the Province of Alberta, 228, or over 60 per cent, had been appointed to their posts since the beginning of 1920. Such impermanence of tenure is certainly not favourable to the development of good banking relations between the branches and their clients.

It is doubtful, moreover, whether branch-banking as it has been practised in Canada has realised the operating economies of which it is theoretically capable. From what I can learn, rates of discount, interest on deposits, and collection charges are all more favourable to the banks' customers in the United States than in Canada. It appears that the competitive waste of the Canadian banks in over-elaborate and over-numerous bank premises more than offsets the economies in other directions which branch-banking makes possible. Nor is it beyond dispute that Canadian branch-banking has resulted in net gains from the greater strength of bank systems as compared to independent unit banks, or from the greater freedom from credit control by borrowers so generally attributed to it. The record of failures of Canadian banks since confederation does not compare favourably with the corresponding record of the unit national banks of the United States, whatever basis of comparison is used. The recent failure of the Home Bank was largely due to excessive and questionable loans to directors, or to enterprises in which directors were financially interested. One director had been lent \$394,000 under suspicious circumstances. More than double the total paid-up capital and reserve of this bank was locked up in four frozen accounts at the time the bank was closed. The Traders' Bank, the Merchants' Bank, and others, produced similarly disquieting revelations as to the possibilities of unsound banking under the branch-banking system when financial difficulties led to searching investigations into the state of

their affairs. I am not aware that equally damaging evidence has been disclosed in a proportionate number of cases in connection with the American national banks, in spite of the alleged liability of local banks to control over their credit policies by borrowers. Moreover, when a Canadian bank gets into financial difficulties, and is not surreptitiously tided over the crisis by the Government, the other banks invariably so manage the situation that its days are ended, and it is either liquidated, or is absorbed by some other great bank, an important phase of the tendency toward monopoly in Canadian banking. In the United States, on the other hand, the local character of banking gives to a bank which has gotten into difficulties, but which has had a long record of useful service to its locality, command over a generous measure of local support, and often makes available sufficient local assistance to set it upon its feet again as a useful member of the banking community.

The standard assumption among Canadian bankers that branch-banking is itself an adequate guarantee against the evils which government inspection and supervision are intended to prevent has been belied by the facts. What Canadian banks need is intelligent government supervision, and an injection into the Canadian system of an important element of independent unit banking. It is probable, however, that American banking would have much to gain from a further development of branch-banking operating in competition with the local banks. Neither system is ideal, and a combination of the two seems to be the golden mean.

BRANCH BANKING AND ITS EFFECT IN FOREIGN COUNTRIES¹

In order to ascertain the possible effect of unrestricted branch banking in this country, the board has caused in-

¹ From a study made by the Federal Reserve Board. *Hearings*. Op. cit. V. 1. pt. 4. p. 428-30.

vestigations to be made of the history of branch banking in foreign countries with special reference to its effect on unit or single office banks in those countries. The information obtained is very enlightening and will be summarized below :

1. *Canada*.—Among banks doing a general banking business, the unit bank has disappeared. As of December 31, 1928, 10 chartered banks controlled general banking in the Dominion. Each of these is a branch banking system, with none having less than 30 branches. The three largest banks, the Royal Bank of Canada, the Bank of Montreal, and the Canadian Bank of Commerce, have \$2,500,000,000 in assets out of \$3,500,000,000, the aggregate of all 10. Of the 3,966 domestic branches and agencies of the chartered banks, these three largest banks have 2,219.

2. *British Isles*.—Among banks doing a general deposit business, the unit bank has practically disappeared in the British Isles. Only seven small institutions doing all their business at one office exist. Indeed, most of these are doubtfully classified as deposit banks, some classifications placing them among acceptance or discount houses. Forty-two concerns are in the general deposit banking business in the British Isles, with 12,837 offices in all. The five big banks have 8,050 of these offices and have 67 per cent of the banking assets. Twenty-six concerns including the big five, each with more than 100 offices, have 93 per cent of the assets.

A century ago banking in the British Isles was done by private banking houses. By 1862 joint-stock banks were not uncommon, but real impetus to their organization was given in that year by an act which permitted the registration of such banks with limited shareholder liability. Before 1880 Lloyds Banking Co. had participated in a number of amalgamations, and concentration moved rapidly after that date. However, it was not until 1896 that twenty private banking concerns united in Bar-

clays Banking Co., and the fifth of the present big five began its career.

During the period between 1895 and 1928, the total number of banks in the British Isles was decreased from 154 to 42.

3. *Germany*.—In Germany, the movement from the unit bank to a branch banking system among banks, doing a general banking business advanced considerably in the twenty years from 1888 through 1907.

In 1888, 164 credit or joint-stock banks with 173 branches were in existence. By 1907, there were 421 such banks with 1,064 branches. Of the total number existent in that year almost 200 were small unit banks with paid-in capital of less than 1,000,000 marks. These small banks controlled less than 2 per cent of the aggregate paid-in capital of the 421 credit banks. By the end of 1926, out of a total of 488 credit banks, as many as 354 were classified as having less than 1,000,000 marks capital. Unfortunately no figures for all credit banks are available to us since that date. However, the absorption of the smaller banks by the larger ones has progressed rapidly since that time, it is said.

For a long period of years, four great Berlin banks have been in the forefront of German banking—Deutsche, Disconto-Gesellschaft, Dresdner, and Darmstadter. The first two have recently merged. Among the 100 largest credit banks in Germany in 1907, these four banks controlled 27 per cent of the aggregate capital and in September 1929, 42 per cent.

4. *France*.—The unit bank in France has suffered severely from the competition of extensive banking systems and has been losing ground in recent years. Four great French banks, doing a general business, control approximately one-half the commercial banking business in France, it has been estimated. Three of these have a large net-work of branches throughout the country; Credit Lyonnais, 1014 branches; Societe Generale, 1,350

branches; Comptoir d'Escompte, over 250 branches. The fourth, the Credit Industriel et Commercial, has many branches in Paris but none outside the city.

In addition to these large banks there are several sizable banks which have many branches in particular regions of the country. For example, there are the Credit du Nord (branches in 75 places), Societe Nancienne (105 branches and agencies), Banque Privee (more than 200 branches and agencies), and Societe Marseillaise (107 branches and agencies). Figures for branches are as of 1922. No satisfactory figures exist as to how many banks of a purely local importance survive. It was estimated for the National Monetary Commission (1911) that there were 2,700-2,800 banks (probably a loose classification) in France. The growth of the four big banks and the regional banks has been at the expenses of the local bank, which is said to play a small role in French banking today.

5. *Japan*.—The unit bank in Japan is losing ground rapidly in the face of a progressive branch banking movement. In the past few years the tendency has been deliberately fostered by the government based on the belief that larger organizations would contribute to stability. Between 1913 and 1928 the total number of banks was reduced from 2,156 to 1,163.

Of the 1,163 banks in existence in 1928, 100 were savings banks, 32 special banks, and the remainder ordinary banks which do a general banking business. The specific banks were individually chartered to further some particular end, often as public or semipublic institutions. In this group are the Bank of Japan, Bank of Chosen, Bank of Taiwan, Yokohama Specie Bank, and the agricultural and industrial banks. Moreover, these figures do not include Japanese trust companies and cooperative banks.

Fourteen important ordinary banks at the end of 1928 had deposits equal to 55 per cent of all the deposits of

the ordinary banks. The Big Five alone had 34 per cent of the aggregate of such deposits.

EARLY DEVELOPMENT OF THE BANK HOLDING COMPANY^{*}

The use of the holding company in the banking field has come into prominence only since the formation of the Transamerica Corporation in 1928 and is commonly thought to be a development of very recent years. However, the following statement from the Annual Report for 1909 of the Commissioner of Banking of Wisconsin shows that the problems created by the bank holding company were causing concern to the banking authorities more than a score of years ago:

A new feature in banking has manifested itself of late which, if permitted to go on unhindered, will eventually result in a monopoly control of the banking business. I refer to the so-called holding companies which are increasing with alarming rapidity in various parts of the country. One of these companies, with headquarters in Minneapolis, Minn., owns a controlling interest in more than 50 banks in Minnesota, Iowa, Wisconsin, and the Dakotas. In Wisconsin, 8 or 10 banks are now controlled by this one company; two other companies have recently been organized at Minneapolis, Minn., for the purpose of gaining control of banks either by buying up a majority interest in banks now in existence or by organizing new banks. The same objection that has repeatedly been advanced against branch banking or chain banking applies with equal force to this new method of manipulating the banking business. The representatives of the holding company are usually elected to the offices of president and cashier of the bank, and while they generally have some local directors, the management is dominated by the holding company influence, and the loans are in the majority of cases made to parties residing outside of this State. Legislation should be had to discourage this evil in every proper manner.

^{*} The statement from the Annual Report of the Commissioner of Banking of Wisconsin is quoted by George E. Barnett in his *State Banks and Trust Companies Since the Passage of the National-Bank Act*, p. 141, one of the publications of the National Monetary Commission.

BANK FAILURES: THEIR CAUSES AND REMEDIES *

THE CAUSES OF BANK FAILURES IN THE PAST NINE YEARS

The first and foremost cause of the large number of bank failures since 1920 is the great boom in agricultural prices and land values before 1920, the collapse of agricultural prices and land values following 1920, and the adverse conditions in agricultural communities which have since continued. The second great cause is real estate speculation in the period since 1920, in certain important sections of the country, notably Florida and some adjacent states.

During this same period, all of New England had only twenty-six failures. New York had only twelve failures, and Ohio had only thirty-six. New Jersey had none at all. The failures were concentrated, in other words, in the regions which had been most affected by the agricultural boom and collapse, and by the real estate speculation in Florida and adjacent states. This concentration of the problem in special areas again would raise the question as to whether Federal legislation, affecting banks all over the country, is called for, or whether—in so far as the matter calls for banking legislation at all—it is not a matter for the states most concerned, with such concurrent legislation on the part of the Federal government as would permit national banks to have the same branch-banking rights that state institutions have in these states.

From the standpoint of the contrast between our unit-banking system and the system of branch banking, it may be observed that the same grave sequence of events, namely, the war, the boom of 1919-20 and the collapse of 1920-21, which undermined so many of our small

* From article by B. M. Anderson, economist of The Chase National Bank of New York, in *Chase Economic Bulletin*, p. 6-11. May 8, 1930.

agricultural banks, also undermined great branch-banking systems in many parts of the world. These include a great bank in Denmark, a great bank in Canada with four hundred branches, the Banque Industrielle de Chine in China, with its widespread branches and its power of note issue, and the Banca di Sconto in Italy, with branches spread all over the country. More recent troubles of the same sort, deferred consequences of the same causes, have occurred in Japan and Austria. An incomplete record shows, also, for the United States, that 226 banks, with deposits of \$102,000,000, belonging to chain systems, failed during the period we are considering.¹⁰ And it is further to be observed that in all these American agricultural states the great bulk of the unit banks, measured in resources, survived the shock, and that in every state the majority of the unit banks in number stood intact.

The situation was very greatly aggravated in many of these states by the excessive number of very small banks. "No community can possibly provide adequate resources, competent officers, and experienced directors for one bank to every 750 of its inhabitants as in North Dakota, or to 1,400 as in Iowa. And the situation in these states was not exceptional; on the contrary, an excessive number of banks have been established throughout those sections of the country that are mainly devoted to agriculture."¹¹

New Jersey's total immunity from bank failures in the past nine years is probably due in part to the fact that New Jersey's banking authorities are not over-ready to grant charters to new banks, unless there is real evidence that a new bank is needed, and that the Federal Comptroller is influenced by the state policy when granting national bank charters in that state.

The situation was complicated further for many small country banks by the withdrawal of an important source

¹⁰ *Hearings*. Op. cit. V. 1. pt. 4. p. 457.

¹¹ *Recent Economic Changes*. v. 2. p. 695.

of revenue which they had formerly enjoyed, namely, the making of exchange charges on checks drawn against them for which remittance was expected in another place. Their checks, when presented over their counters, they paid at par. But when they were expected to make remittance to other places, they very generally made a liberal (and often excessive) "exchange charge," which was an important source of revenue. The Federal Reserve System of par collection of checks has largely wiped out this source of revenue for very small banks.

Again, the institutions chartered by the Federal government for making mortgage loans reduced an important source of revenue which many of these small banks had, in acting as intermediary in the making of mortgage loans.

Very especially has the position of the very small bank in villages been weakened by the coming of hard roads and automobiles, which, in many places, have largely destroyed the usefulness of the small local village, doing away with the local merchant, the local mill, and the local church, as well as the local banker, making it possible for the people to do their business and seek their social life in the county seat and nearby larger cities. Industrial consolidations, moreover, even where leaving local factories in small places, have very often taken away the banking business which the local factory gave to the local banker, and concentrated it in larger places. The growth of chain stores has had a similar effect. The very small bank has had a difficult time in recent years, and the marvelous thing is, not that so many have gone under, but rather that such an enormous number have stood, and have even prospered, despite these adverse tendencies.

DIVERSIFICATION OF RESOURCES THROUGH CORRESPONDENT BANKS

One cause assigned for the failures of many small banks is that they have been unable to diversify their re-

sources because located in a one-crop district, whereas a great bank with branches stretching over a whole Federal Reserve district could accomplish this diversification. It is true that many small banks have failed through lack of diversification of their resources, but it is also true that the majority of small banks in the same communities have survived because they have diversified their resources. They have accomplished this diversification by means of their correspondent relations with great banks in great cities. They have refrained from putting all of their resources into local loans, and have placed part of them, through their correspondent bank, into open market commercial paper, or readily marketable bonds, or call loans on the Stock Exchange, or acceptances, and deposit balances with their correspondent bank to build up a "borrowing equity." When times of stress have come, they have thus had secondary reserves, and they have been able to borrow from their correspondent banks sums needed to tide them over seasonal needs and emergencies. Good banking and diversification of banking resources is perfectly possible for a small bank in a one-crop community. We do not need branch banking either for the purpose of securing diversification or for the purpose of bringing about a seasonal flow of funds from region to region. The system of correspondent banking relations has accomplished this for many decades, and good bankers everywhere know how to do it.

THE REMEDIES

I see nothing in all of this to call for a radical change in Federal laws regarding branch banking. The problems do not extend throughout the United States. They are centered in particular states. The problems do not relate to institutions of sufficient size to be beyond the power of each state to deal with for itself.

Radical changes in the banking legislation of a good many states are undoubtedly indicated. The minimum

capital required for banking in many states is far too small. There ought to be sweeping consolidation movements among the smallest banks in many states. Many villages which now have two or three struggling banks would be much better served by one strong bank. State legislation giving the state banking authorities power to guide, and even to compel this in their discretion, would be very desirable in certain states.

A limited extension of branch banking by state law would probably help the situation in a good many states. The National Bank Act should be amended so as to permit national banks to do in this connection what the different states allow their state banks to do.

County-wide branch banking, branch banking in groups of counties, even, in some cases, state-wide branch banking, or branch banking centering about three or four main cities of the state, ought, in certain states, to be permitted and encouraged. There may even be one or two cases where a state will feel itself so much in need of outside banking capital that it will welcome the branches of powerful banks whose head offices are in other states.

Mr. Platt, of the Federal Reserve Board, has made moderate proposals along the line of county-wide branch banking, having especially in mind the very small country banks, which deserve very careful study. Ambassador Charles G. Dawes, when Comptroller of the Currency, in his Annual Report for the year 1898, recommended that branch banking be authorized in communities of less than two thousand inhabitants, since many of such communities were not able to support independent banks. Many such villages would undoubtedly be better served by inexpensive offices of strong banks, whose head offices are in nearby county seats than they are by their local independent unit banks which are not making profits and which must charge very high rates for the limited local loans they are able to make.

It is probable that legislation along this line, authorizing banks in larger cities to establish branches in outside communities with ten thousand or less inhabitants, or even with five thousand or less, would accomplish virtually everything, with respect to the prevention of small bank failures, that branch banking could in any case accomplish. At the same time it would avoid the grave evils that would come from the sudden revolution in our general banking system, and from the destruction of local financial independence, that the larger programme now under consideration would involve.

FEDERAL LEGISLATION ON BRANCH BANKING¹²

Congress has in several instances enacted legislation authorizing the establishment of branch banking systems. In the early years of this country, 1791 and 1816, Congress authorized the establishment of the First Bank of the United States and the Second Bank of the United States. Both of these banks were authorized to establish branches in any part of the United States. The National Bank Act did not expressly forbid the establishment of branches; and the amendment of March 3, 1865 (sec. 5155 of the Revised Statutes), authorized state banks having branches, with capital assigned to the head office and branches in definite proportions, to convert into national banks and retain their branches, regardless of their location.

Branch banking systems for particular purposes were also authorized when Congress authorized the establishment of the postal savings banks, Federal reserve banks, Federal land banks, joint-stock land banks, Federal intermediate credit banks, and the War Finance Corporation. The establishment of branches in each of these sys-

¹² From statement prepared by the Federal Reserve Board. *Hearings*. Op. cit. V. 1. pt. 4. p. 432-3, 435-6.

tems, however, was permitted only under certain conditions and subject to certain restrictions and safeguards. In determining what legislation should now be enacted with reference to the establishment of branches by commercial banking institutions, it would be advisable to examine carefully the restrictions and safeguards which Congress has thrown about the establishment of branches in the banking systems it has heretofore authorized.

The legislation authorizing these various systems of branch banks will be discussed very briefly.

1. *First Bank of the United States.* In 1791 Congress chartered the First Bank of the United States. The charter of this bank provided that its head office should be located at Philadelphia and authorized its board of directors to establish branch offices within the United States wherever thought fit, for purposes of discount and deposit. It appears that eight branches of the First Bank of the United States were established in various parts of the country.

2. *Second Bank of the United States.* In 1816 Congress authorized the establishment of the Second Bank of the United States with its head office in the city of Philadelphia. The charter of this bank authorized its directors to establish branch offices wherever they thought fit within the United States, for purposes of discount and deposit. It appears that eighteen of such branches were established by this bank.

3. *National banks.* The National Bank Act did not expressly forbid the establishment of branches, and it was not until January 28, 1924, when the Supreme Court of the United States rendered its decision in the famous case of *First National Bank in St Louis v. State of Missouri* (263 U. S. 640), that it was definitely and finally settled that national banks could not establish branches under the provisions of that act. Even after that decision, it was contended that, in the exercise of their incidental powers, national banks could establish

"additional offices" for the performance of certain limited functions within the limits of the city or town in which they were located.

Although the National Bank Act did not expressly authorize the establishment of branches by national banks, the amendment of March 3, 1865 (sec. 5155 of the Revised Statutes) specifically provided that state banks having branches with capital assigned to the head office and branches in definite proportions could convert into national banks and retain their branches, regardless of the location of such branches. Moreover, under the act of November 7, 1918, a national bank having branches retained upon conversion from a state bank could consolidate with another national bank and the consolidated bank could retain the branches. Where the state law was suitable, therefore, national banks could acquire branches by the device of organizing a state bank with branches, converting it into a national bank, and consolidating with it. In 1925 there were in existence 103 branches of national banks acquired under these Statutes.

All of this, of course, was changed by the McFadden Act of February 25, 1927.

The McFadden Act. No discussion of congressional legislation of branch banking would be complete without a discussion of the McFadden Act of February 25, 1927, though the provisions of that act are familiar to everyone who has made any study of the subject of branch banking.

(a) *National banks.* The provisions of the McFadden Act with reference to branches of national banks may be summarized as follows:

(1) Any national bank may retain and operate such branch or branches as it had in lawful operation on February 25, 1927, regardless of their location.

(2) Any national bank which has continuously maintained and operated not more than one branch for a period of more than twenty-five years immediately preceding February 25, 1927, may continue to maintain and operate such branch, regardless of the legality of the

establishment of such branch or the maintenance of it prior to the enactment of the McFadden Act.

(3) Where a state bank converts into a national bank such national bank may retain and operate any and all branches of such state bank which any bank had in lawful operation on February 25, 1927, regardless of their location.

(4) If a state bank consolidates with a national bank, such consolidated national bank may retain and operate any and all branches of either the state bank or the national bank which any bank had in lawful operation on February 25, 1927, regardless of their location.

(5) Where two or more national banks consolidate, such consolidated national bank may retain and operate any and all branches of any one of the constituent national banks which any bank had in lawful operation on February 25, 1927, regardless of their location.

(6) After February 25, 1927, national banks may establish and operate new branches subject to the following conditions and limitations:

(a) Such branches may be established and operated only within the limits of the city, town, or village in which the parent bank is situated;

(b) Such branches may be established and operated only in those states the laws of which permit state banks to establish and operate similar branches;

(c) No such branch may be established in a city, town or village of which the population by the last decennial census was less than 25,000;

(d) Not more than one branch may be established in any city, town or village of which the population by the last decennial census does not exceed 50,000;

(e) Not more than two such branches may be established in any city, town or village of which the population by the last decennial census does not exceed 100,000;

(f) In any city, town or village the population of which exceeds 100,000 the determination of the number

of branches which may be established by national banks is left to the Comptroller of the Currency; and

(g) No such branch shall be established or moved from one location to another without first obtaining the consent and approval of the Comptroller of the Currency.

(7) The term "branches" as here used includes any branch bank, branch office, branch agency, additional office, or any branch place of business located in any state or territory of the United States or in the District of Columbia where deposits are received, checks paid or money lent.

(8) This section of the McFadden Act does not affect the establishment or maintenance of branches by national banks in foreign countries or dependencies of insular possessions of the United States pursuant to the provisions of section 25 of the Federal Reserve Act.

(9) The words "state bank," "state banks," "bank," or "banks" as used in this section includes trust companies, savings banks, or other such corporations or institutions carrying on the banking business under authority of state laws.

(10) National banks are expressly authorized to transact at branches established or maintained in accordance with the provisions of the McFadden Act any and all business which might be lawfully transacted at the head office.

(b) State member banks of the Federal Reserve System: Under the McFadden Act, any state bank which, on February 25, 1927, had established and was operating a branch or branches in conformity with the state law, may retain and operate such branch or branches while remaining or upon becoming a member of the Federal Reserve System. In other words, any nonmember state bank which, on February 25, 1927, had established and was operating a branch or branches in conformity with the state law and which becomes a member of the Federal Reserve System is entitled by law to retain such branch or branches, regardless of the number or location thereof;

and any state member bank which, on February 25, 1927, had established and was operating a branch or branches in conformity with the state law is lawfully entitled to retain and operate such branches while remaining a member of the Federal Reserve System, regardless of the location or number of such branches.

The only restriction on the establishment of branches by state member banks is that no state bank may become a member of the Federal Reserve System or may remain a member of the Federal Reserve system except upon relinquishing any branch or branches established after February 25, 1927, beyond the limits of the city, town or village in which the parent bank is located. In other words, no nonmember state bank may become a member of the Federal Reserve System except upon relinquishing any branch or branches established after February 25, 1927, beyond the limits of the city, town, or village in which the parent bank is situated; and any state member bank which establishes a branch or branches beyond the limits of the city, town, or village in which the parent bank is located after February 25, 1927, must either relinquish such branch or branches or give up its membership in the Federal Reserve System.

The McFadden Act prescribed no limitations upon the number of branches which state member banks may establish or maintain within the limits of the city, town, or village in which the parent bank is located, nor does it require any specified population of the cities, towns, and villages in which state member banks may establish or maintain branches.

THE GREAT WEB OF CHAIN BANKING¹³

Economic research and the dissemination of economic truths are the main objects of the Economic Policy Com-

¹³ Report of R. S. Hecht, chairman, Economic Policy Commission, American Bankers Association, to the annual convention of the Association, 1929. Reprinted in the *American Bankers Association Journal*, p. 304-5. October, 1929.

mission. With that end in view the Commission has during the past year made an exhaustive investigation of the development of chain and group banking throughout the United States.

In this investigation the Commission entered an unexplored region. There were no landmarks to go by. There was no established body of reliable facts to build on. There was a confusion of rumors and a chaos of misinformation. Furthermore, new bank groupings and chain bank systems are springing into existence or into notice so rapidly that often today's data are rendered obsolete by tomorrow's events. Therefore the story put forward in this report is not conclusive, nor is it assumed that the figures embodied in it are all-complete.

SEISMIC REVOLUTION

Nevertheless, the figures do represent a comprehensive survey of this seismic revolution that is going on in American banking as the land lies today. In the collection of these facts we have maintained a thoroughly impartial and dispassionate attitude and they are presented without opinions or deductions, simply as an unprejudiced economic study of conditions as they exist in the banking world today.

The facts comprised in the information which we have compiled envisage chain and group banking systems in the broadest sense of the term.

They include those groups in which the dominant element is a particular bank exercising direct or indirect, but definite, control over a number of other banks. Of this class of chain systems we find 77 instances, involving 402 banks, including the head banks, and representing \$6,104,000,000 in combined banking resources.

INVOLVES 311 BANKS

They include also those groups in which a non-banking holding company, not subsidiary to any particular bank is the dominant element. Of this class of chain systems

we find twenty-eight instances, involving 311 banks and \$4,929,000,000 in combined banking resources.

Finally, they include those groupings in which the dominant control is exercised by individual persons or groups of individuals acting for themselves. We find 167 instances of this class, involving 1071 banks and representing about \$1,468,000,000.

These three classes represent a total of 272 chains, involving 1784 banks and about \$12,500,000,000 in aggregate resources. If there are now approximately 25,000 banks in the country with resources of \$72,000,000,000, these figures indicate that over 7 per cent of our banks and over 17 per cent of our banking resources are enmeshed in the great web of chain banking that now covers almost every part of the country. Some of these chain systems comprise 50 to 100 banks each.

Of one class or another these chains are revealed by our figures in all but nine of the forty-eight states, and as to these nine our information is chiefly negative, and we cannot say positively whether there is chain banking going on there or not.

A survey of the material showing the structure of chain bank organizations reveals that under each of the three main classes of the three main classes as listed there are a number of distinct types. Our data covers, so far as possible, all the foregoing classes and types of chain and group banking systems.

We have not included, however, that large body of banking groups in which a commercial bank, a trust company and an investment house, and sometimes a savings bank are tied together by some form of stock holdings and frequently operated under one roof or under adjoining or nearby roofs as complementary elements in an organization rendering complete financial services.

So long as they go no further than that we have held that the intent and theory of such groups are similar to those of a departmentalized bank structure and distinctly

different from the purposes and operations of a chain or group banking system.

We would note in passing, however, that we have discerned a distinct tendency on the part of such banking groups to use their holding companies or investment units to extend their operations along unmistakable chain bank lines.

For purposes of the present report, therefore, we would define chain or group banks as those systems in which a centralized administrative control, whether corporate or personal and either rigid or informal, directs the operations of two or more complete banking units, each working on its own capital and under its own personnel and located in one or more cities or states. There are many border line cases, but we have found generally that the distinction of purpose and operation as between independent unit and multiple unit banking can be drawn along the lines of this definition.

EFFECT OF LAWS

It has been assumed by some that the rapid development of chain and group banking was in the nature of a reaction against restrictions imposed upon multiple office banking of the branch banking form by anti-branch banking laws. Our observations do not wholly confirm this theory, since we find chain banking prevalent in states where virtually no restriction is imposed on branch banking, as well as in states where branch banking is prohibited. However, the facts do show that anti-branch banking laws have been a factor in some cases, and probably in some sections, in the spread of chain banking.

The greatest number of chains are found in the states of California, which has eleven; Michigan, fourteen; New Jersey, fourteen; New York, seventeen; and Pennsylvania, fifteen; in Illinois, eleven; Iowa, twelve; Minnesota, thirty-four; Texas, thirteen, and Washington, eighteen, and in Kansas, ten. In the first five of these

states the establishment of branch banks is permitted; in the second five it is prohibited; while in Kansas there is no provision in the law regarding it.

The greatest volume of banking resources involved in chain banking is found in California, which permits the establishment of branches on state-wide lines; in Massachusetts, Michigan, New Jersey, New York and Pennsylvania, which permit the establishment of home-community branches, and in Georgia, Illinois, Minnesota, Missouri, Washington and Wisconsin, where the establishment of branch banks is prohibited.

MIXED FACTORS

At least one case has come to our attention where expansion along chain bank lines has been carried out by a state bank whose expansion along branch bank lines was stopped by a law passed in the state in 1921 prohibiting further branches. Whether in those states in the Northwest where chain banking developments have been especially active, notably Minnesota and other states in the ninth Federal Reserve District, expansion would have been along branch lines if the laws had imposed no barriers, it is impossible to say. There is obviously a well-developed banking opinion in that territory that the chain bank method brings to outlying banks the strength and efficiency of a big organization without depriving them of their local individuality and sympathies. It may therefore have been that a large part of the expansion comprised in the chain bank movement would have been along these lines even if the laws had permitted branch banking extensions.

In view of the mixed factors noted, we feel it is unsafe to generalize as to what bearing branch banking laws have on chain bank developments. The recent era of rapid chain bank developments has found specific reflection in state legislative action tending to restrict or control chain banking.

Generally speaking, but not universally, banking laws make it impossible for banks to build corporate chains directly. National banks are not permitted to invest in the stocks of other corporations, and this is also the law in a great many states as to state banks, although trust companies ordinarily are allowed to make such investments. Therefore, broadly speaking, existing laws have resulted extensively in chain bank organizations being controlled either by a holding company created specifically for the purpose and owned pro rata by the bank's stockholders or by a trust for the benefit of the stockholders or a given bank or group of banks. Closeness of tie, however, between the dominant banks and a chain system is not seriously impaired by those legal devices, which after all amount merely to a paper partition in the organization controlling the bank chain, with physical arrangements, management and operating personnel virtually a unit.

SPECIFIC ENACTMENTS

There have been a number of interesting specific enactments on the subject of chain banking in the past year or two. In New Jersey in 1928 a law was passed prohibiting the operation of bank holding enterprises except where they are banking institutions or their affiliates.

In West Virginia the last session of the legislature enacted a new banking code in which chain banking is specifically prohibited. It prohibits any firm, association or corporation to hold stocks in banking institutions for the purpose of perfecting control of one or more, directly or indirectly.

In Wisconsin a measure has just been signed by the Governor providing that no Wisconsin corporation can hold more than 10 per cent of the capital of any Wisconsin state bank or trust company without the consent of 75 per cent of the stock, both of the corporation and the banking institution; that no state bank or trust company may authorize a non-Wisconsin corporation to pur-

chase its stock unless the corporation is authorized to do business there under the Wisconsin state statutes; that any state bank, trust company, or national bank doing business in Wisconsin controlled by a non-Wisconsin corporation unauthorized to do business in Wisconsin, shall be disqualified from acting as depository for any public funds in the state or reserve funds of state banks, and that any Wisconsin corporation, investment trust, or other organization, also any non-Wisconsin organization authorized to do business in the state, holding control of a state bank or trust company, shall be deemed to be engaged in the business of banking and fully subject to the supervision by the State Banking Department along lines similar to banks.

Finally, this measure provides that any company owning stock in a state bank or trust company shall be liable to assessment on the same basis as an individual stockholder, that it must deposit with the State Treasurer legal securities in the amount of 50 per cent of the par value of its bank or trust company share holdings, and that in the event the double liability of any corporation on its bank stock holdings shall not be paid under an assessment, the stockholders of the corporation shall be held liable for the deficit.

BRANCH, CHAIN, AND GROUP BANKING: DECEMBER, 1929 ¹⁴

Principal branch banking states and cities. At the end of 1929 branches were in operation in 29 states and the District of Columbia—1,286 in the 9 states and the District of Columbia which permit state-wide branch banking, 2,207 in the 12 states which restrict the establishment of branches to the home city of the parent bank or territory nearly contiguous thereto, and 54 in 8 states in which the further extension of branch banking is

¹⁴ *Federal Reserve Bulletin*, p. 145-50. April, 1930.

prohibited by state law. Two-thirds of the 3,547 branches in operation in December were located in 5 states—California, New York, Michigan, Ohio, and Pennsylvania—and in each of 4 other states—Massachusetts, New Jersey, Louisiana, and Maryland—more than 100 branches were in operation.

Of the 2,432 home-city branches, 1,659, or more than two-thirds, were located in 10 cities, the number of such branches in each of these cities being as follows:

New York	580	Cleveland	85
Detroit	*309	Buffalo	73
Los Angeles	*201	Boston	66
Philadelphia	133	Baltimore	65
San Francisco	*97	Cincinnati	50

* Exclusive of branches whose head offices were located in other cities.

Size of branch systems. At the end of the year, 18 banks were operating each more than 30 branches, including six California systems, one of 287 branches, and 5 of 160, 139, 94, 56, and 31 branches, respectively. Three Detroit banks were operating 94, 33, and 31 branches, respectively; 7 New York City banks were operating each from 33 to 67 branches; 1 Cleveland bank was operating 57; and 1 Buffalo bank 33 branches. These larger branch systems represent in many cases a succession of mergers of smaller branch systems or of conversion into branches of independent banks. All but 2 of these 18 banks were members of the Federal Reserve System.

It was still true in December, however, as at earlier dates, that a large majority of the banks operating branches in the country as a whole were operating only 1 or 2 branches each. Of the 882 banks operating branches, 448, or more than half, were operating only 1 branch each, 150 were operating 2, and 124 were operating 3 to 5 branches each, the proportion of small systems being not materially different from the proportion shown in February, 1927.

Rural branches. Of the 1,115 branches located outside the home city of the parent bank, 612 were located in places of less than 2,500 population; 136 in places of 2,500 to 5,000; 86 in places of 5,000 to 10,000; and 281 in places of over 10,000. The 281 outside branches located in places of over 10,000 population represented largely branches of state-wide California systems with head offices in Los Angeles and San Francisco operating branches in other large cities of the state. The number of branches located in places of less than 2,500 increased by 40 in the period from June, 1928, to December, 1929.

Method of establishment of branches. More than two-thirds of the branches in operation in February, 1927, were offices which had been established *de novo* as branches, the remaining branches representing largely conversions of independent banks into branches, although in some instances the method of establishment was not ascertained. In the period from February, 1927, to December, 1929, the number of *de novo* branches increased by 383—from 1,996 to 2,379—and the number of branches representing conversions of banks increased by 282—from 735 to 1,017, the method of establishment in the case of 151 offices not having been ascertained.

Suspension or failure of branch systems. During the nine-year period 1921-1929, 41 branch systems operating a total of 80 branches suspended operations, with total deposits of \$49,000,000. Five of these systems were subsequently reopened, and later one of these was again closed. Of the 41 systems, 29 were operating 1 branch each, six 2 branches each, two 3, two 4, one 5, and one 20 branches. Ten of these banks, operating a total of 18 branches, with deposits of \$20,000,000, suspended operations during 1929, one of these 10 operating 2 branches with deposits of \$5,882,000 being later reopened.

Unit banks and chain, group, and branch systems. The grouping up of bank offices of national, state member, and nonmember banks in chain, group or branch systems, and the number of independent unit banks of these classes

at the end of December, 1929, is shown in the following table, which gives a corresponding classification of loans and investments of banks. In this table, as elsewhere throughout the board's compilations, only affiliations of three or more banks are classified as chain or group systems. It follows that some single banks classified as independent unit banks may be affiliated through stock ownership with other single banks.

Of the 28,177 banking offices in operation at the end of December, 21,824, or approximately three-fourths, were unit banks having no branches and operating independently of chain or group systems; 2,103 were banks operating in chains or groups; 1,415 were branches of chain or group system banks, and 703 were head offices and 2,132 were branch offices of branch systems operating independently of chain or group-system affiliations. Unit banks unaffiliated with chain or group systems and operating no branch offices reported approximately one-half of the loans and investments of all banks in the country.

Area of chain and group banking. While chain and group banking developments have not been generally restricted by provisions in State banking codes, the area within which these developments have been relatively more considerable in extent is composed largely of states which have prohibited the establishment of branch banking offices—as, for example, in Minnesota, North Dakota, Kansas, Iowa, Illinois, Oklahoma, and Texas. Developments of this character have, however, by no means been restricted to these states. In certain other states, particularly in several which have restricted the development of branch banking to the building up of home-city or local branch systems, as in Michigan and New York, as well as in California, which permits state-wide branch banking, and in Florida, Georgia, and Montana, chain or group banking has shown very considerable developments. There were in fact relatively few states in which no affiliation of banking institutions in chain or group

BANKING OFFICES AND LOANS AND INVESTMENTS IN AND OUTSIDE CHAIN, GROUP, OR BRANCH
SYSTEMS, BY CLASS OF BANK: DECEMBER 31, 1929

Class of bank	Banking offices—banks or branches						
	Total	In chains or groups		In independent branch systems		Unit banks ¹	
		Banks not operating branches	Banks operating branches		Head offices		Branches
			Head offices	Branches			
Number							
Total.....	28,177	1,984	119	1,415	703	2,132	21,824
Member banks.....	10,848	855	83	1,150	263	1,176	7,321
National.....	8,430	757	45	550	121	477	6,480
State.....	2,418	98	38	600	142	699	841
Nonmember banks.....	17,329	1,129	36	265	440	956	14,503
Loans and investments (in millions of dollars)							
Total.....	58,417	4,913	6,264	(²)	18,839	(²)	28,401
Member banks.....	35,934	3,726	5,579	(²)	13,354	(²)	13,275
National.....	21,584	2,825	3,083	(²)	5,906	(²)	9,770
State.....	14,350	901	2,496	(²)	7,448	(²)	3,505
Nonmember banks.....	22,483	1,186	686	(²)	5,484	(²)	15,127

¹ Banks operating no branch offices, and not affiliated with any chain or group system.

² Included in figures for head offices.

systems was reported in December, 1929. The area within which such affiliations have been relatively predominant, however, comprises the Central Middle Western, Northwestern and Western States. This chain or group banking area is in general relatively much more extensive and less clearly defined than the branch-banking area.

As has been noted above, a number of banks which operate branch systems, themselves operate as members of chain or group systems, and in individual instances these combined branch, chain, and group systems control very large resources and an extensive network of affiliated banks and branch offices operating in several states and comprising national with state banks.

Number and loans and investments of chain or group systems. At the end of December, a total of 287 bank chains or groups were in operation, embracing 2,103 banks, with total loans and investments in excess of \$11,000,000,000 or approximately one-fifth of total loans and investments of all banks in the country.

Banks operating in chain or group systems on this date included 802 national, 136 state member, and 1,165 nonmember banks.

Size of banking chains or groups. Chain or group systems as reported for December, 1929, are classified by number of banks comprised in individual systems for States in Table 8. A summary of this classification is given below:

3 banks	64
4 banks	56
6 banks	39
6 to 9 banks	86
10 to 19 banks	32
20 or more banks	10
Total	287

Of the larger chain or group systems in operation on December 31, a very considerable number comprised one or more banks operating branches, and while in a majority of instances the banking offices of these systems, including head offices of banks with their branches, were located in the same state as the offices of the controlling agencies, in some instances banks and branches of a single system were located in several states. One Minneapolis system controlled banks located in eight States and in four Federal reserve districts, and one group system with head office in New York City, with aggregate loans and investments in excess of \$1,400,000,000 comprised two extensive branch systems in California, one of 287 and one of 160 branch offices, and one branch system of 34 branches located in New York City. The system having the second largest aggregate of loans and investments comprised 5 banks with 179 branch offices located in three States—New York, California, and Pennsylvania. One Detroit system, the third largest in aggregate loans and investments, controlled 21 banks with 213 branches all located in the State of Michigan, as were also the branches of banks comprised in two other systems with headquarters in Detroit.

Types of banking chains or groups. Three types of chain or group systems have been reported, which may be characterized with reference to the controlling agency, as follows:

- (1) Instances where control is exercised by a holding corporation, which has usually been formed by interests connected with one or more of the principal banks belonging to the system.
- (2) Instances where control is exercised by the principal bank of the system, either through direct ownership of stock by the bank, or through ownership by the stockholders or directors of the bank.

- (3) Instances of ownership of controlling or substantial interest in a number of banks by an individual, family, or group of individuals.

Recent developments have been conspicuously of the first and second types noted, and these developments, commonly utilizing holding companies, as controlling agencies, have been distinguished in some discussions as "group systems," the designation of "chain system" being reserved for organizations of the third type. These classifications by types of control are, however, very general, since the actual method and agency of control varies from system to system and may in the case of any given system be modified from time to time.

Suspension or failure of banks operating in chains or groups. On the basis of the best information available, which is admittedly unsatisfactory for earlier years, it appears that a total of 226 banks, with deposits of \$102,000,000, reported as belonging to 50 different bank chains or groups suspended operations during the nine-year period 1921-1929. Of these banks 61, with deposits of \$35,000,000, were subsequently reopened.

BANK FAILURES: 1920-1929¹⁵

Taking the total number of banks on June 30, 1920, as a basis in the State of Vermont, there were no failures.

In the District of Columbia there were no failures.

In the State of New Hampshire there was one failure.

In the State of New Jersey there were three failures.

In the State of Massachusetts there were six failures, or 1.3 per cent.

In the State of Connecticut there were three failures, or 1.4 per cent.

In the State of Maine there were three failures, or 1.9 per cent.

¹⁵ From the statement of Comptroller of the Currency John W. Pole. *Hearings*. Op. cit. v. 1. pt. 1. p. 83-4.

In the State of New York there were 26 failures, or 2.5 per cent.

In the State of Pennsylvania there were 40 failures, or 2.6 per cent.

In the State of Maryland there were 11 failures, or 3.9 per cent.

In the State of California there were 31 failures, or 4.3 per cent.

In the State of Delaware there were two failures, or 4.3 per cent.

In the State of Ohio there were 55 failures, or 4.8 per cent.

Of all the banks which were in existence in 1920 in the State of Rhode Island three banks failed, or 6.3 per cent.

In the State of Kentucky there were 43 failures, or 7.4 per cent.

In the State of Wisconsin there were 75 failures, or 7.7 per cent.

In the State of Illinois there were 138 failures, or 8.6 per cent.

In the State of Alabama there were 32 failures, or 9.1 per cent.

In the State of Nevada there were 3 failures, or 9.1 per cent.

In the State of Virginia there were 45 failures, or 9.2 per cent.

In the State of Michigan there were 66 failures, or 9.4 per cent.

In the State of Mississippi there were 34 failures, or 9.6 per cent.

In the State of West Virginia there were 34 failures, or 10 per cent.

This is of all banks in existence, state and national, June 30, 1920. This number has failed:

In the State of Indiana there were 115 failures, or 10.9 per cent.

In the State of Tennessee there were 66 failures, or 12.1 per cent.

In the State of Louisiana there were 34 failures, or 12.7 per cent.

In the State of Utah there were 18 failures, or 13.5 per cent.

In the State of Washington there were 56 failures, or 14.2 per cent.

In the State of Oregon there were 43 failures, or 15.5 per cent.

In the State of Kansas there were 223 failures, or 16.5 per cent.

In the State of Missouri there were 296 failures, or 17.9 per cent.

In the State of Texas there were 299 failures, or 18.9 per cent.

In the State of Arkansas there were 95 failures, or 19.5 per cent.

In the State of North Carolina there were 125 failures, or 20.1 per cent.

In the State of Colorado there were 89 failures, or 22.1 per cent.

In the State of Minnesota there were 411 failures, or 27 per cent.

In the State of Oklahoma there were 266 failures, or 27.7 per cent.

In the State of Nebraska there were 339 failures, or 29.3 per cent.

In the State of Iowa there were 528 failures, or 29.9 per cent.

In the State of Arizona there were 27 failures, or 31 per cent.

In the State of Idaho there were 72 failures, or 32.4 per cent.

In the State of Wyoming there were 60 failures, or 30.5 per cent.

In the State of Georgia there were 319 failures, or 43.2 per cent.

In the State of Montana there were 203 failures, or 47.1 per cent.

In the State of North Dakota there were 429 failures, or 47.8 per cent.

In the State of South Carolina there were 227 failures, or 49.2 per cent.

In the State of New Mexico there were 62 failures, or 50 per cent.

In the State of South Dakota there were 394 failures, or 56.8 per cent.

In the State of Florida there were 190 failures, or 71.7 per cent, of all the banks which were in existence June 30, 1920 to 1929, inclusive.

NUMBER AND DEPOSITS OF ALL BANKS IN UNITED STATES ¹⁶ AT THE END OF JUNE, 1920, AND NUMBER AND DEPOSITS OF BANKS THAT SUSPENDED FROM JANUARY 1, 1921, TO DECEMBER 31, 1929 ¹⁷

	Total all banks	Member banks		Nonmember banks
		National	State	
NUMBER OF BANKS				
Total number of banks in operation at the end of June, 1920.....	30,079	8,025	1,374	20,680
Number of banks that sus- pended from Jan. 1, 1921, to Dec. 31, 1929.....	5,640	763	231	4,646
Ratio of banks that sus- pended during 1921-1929 to total banks in operation in June, 1920 (per cent).	18.8	9.5	16.8	22.5
DEPOSITS				
Total deposits of all banks in operation at the end of June, 1920.....	\$41,445,376,000	\$17,148,231,000	\$8,224,105,000	\$16,073,040,000
Deposits of banks that sus- pended from Jan. 1, 1921, to Dec. 31, 1929.....	1,721,402,000	355,780,000	138,450,000	1,227,172,000
Ratio of deposits of banks that suspended during 1921-1929 to deposits of all banks in operation in June, 1920 (per cent)...	4.2	2.1	1.7	7.6

¹⁶ Exclusive of Alaska and island possessions (60 banks).

¹⁷ Table prepared by the office of the Comptroller of the Currency. *Hearings. Op. cit. V. 1 pt. 1. p. 80.*

GROUP AND CHAIN BANK SYSTEMS¹⁸

States	Number of groups	Number of Banks	Resources
Alabama	5	30	\$50,450,000
Arizona	1	5	20,870,000
Arkansas	4	82	81,625,000
California	10	53	1,438,360,000
Colorado	2	12	37,120,000
Connecticut	1	7	39,970,000
Delaware	1	3	10,260,000
District of Columbia ...	..	..	
Florida	4	22	108,710,000
Georgia	5	22	228,090,000
Idaho	3	23	28,870,000
Illinois	11	89	1,417,260,000
Indiana	2	10	38,830,000
Iowa	10	70	76,300,000
Kansas	19	92	78,310,000
Kentucky	3	16	181,300,000
Louisiana	2	9	41,460,000
Maine	1	10	68,040,000
Maryland	..	..	
Massachusetts	5	43	1,248,450,000
Michigan	12	110	1,351,150,000
Minnesota	29	451	1,088,490,000
Mississippi	1	4	7,010,000
Missouri	6	21	141,180,000
Montana	1	8	5,100,000
Nebraska	8	51	30,170,000
Nevada	2	12	29,490,000
New Hampshire	..	..	
New Jersey	13	48	376,850,000
New Mexico	1	5	2,730,000
New York	16	96	4,565,170,000
North Carolina	..	..	
North Dakota	7	57	29,025,000

¹⁸ Compiled by the Economic Policy Commission of the American Bankers Association. *American Bankers Association Journal*, p. 1126. June, 1930.

States	Number of groups	Number of Banks	Resources
Ohio	1	4	79,920,000
Oklahoma	9	58	184,630,000
Oregon	6	33	104,660,000
Pennsylvania	13	47	894,860,000
Rhode Island	1	3	174,420,000
South Carolina	2	7	64,920,000
South Dakota	4	24	13,070,000
Tennessee	8	42	225,230,000
Texas	17	81	186,430,000
Utah	4	42	90,410,000
Vermont	..	..	
Virginia	..	..	
Washington	9	59	136,760,000
West Virginia	..	..	
Wisconsin	5	39	286,190,000
Wyoming	5	22	22,960,000
Totals	269	1,922	\$15,285,100,000

ROLL CALL OF LEADING BANK GROUPS
IN THE UNITED STATES AS OF
DECEMBER 31, 1929, IN ORDER
OF DEPOSITS ¹⁹

	Number of banks in group	Capital, sur- plus and un- divided profit	Deposits	Resources
Transamerica Corporation, San Francisco.....	3	\$216,180,200	\$1,537,431,892	\$1,891,201,856
Detroit Bankers Co., De- troit	5	89,191,598	581,906,739	711,006,036
Manhattan Co., New York... 4	4	97,723,926	510,673,776	729,174,799
Marine Midland Corpora- tion, Buffalo	17	57,760,358	431,473,213	520,956,593
Mellon group, Pittsburgh..... 6	6	102,228,645	419,938,554	549,184,937
Guardian Detroit Union group	35	66,828,073	393,086,329	509,949,812
Northwest Bancorporation, Minneapolis	94	44,423,648	385,224,440	454,141,941
First Bank Stock Corpora- tion, Minneapolis	85	40,993,177	366,272,510	433,074,788

¹⁹ From the *American Banker*. February 20, 1930. For a more complete and detailed list of chains and groups see that compiled by the Federal Reserve Board. *Hearings*, Op. cit. v. 1. pt. 2. p. 163-84. It will be noted that the two lists do not agree in their statistics of certain groups.

	Number of banks in group	Capital, sur- plus and un- divided profits	Deposits	Resources
Anglo California Corpora- tion, San Francisco	18	28,536,000	211,764,000	277,691,000
Wisconsin Bankshares Cor- poration, Milwaukee	23	28,265,371	204,019,979	243,312,082
National Republic Bancorpora- tion, Chicago	8	23,155,500	190,383,849	242,603,344
Associated Banks of Pitts- burgh	8	39,805,770	166,255,494	216,463,821
Fourth and First National group, Nashville	8	23,729,125	110,421,883	174,992,844
First National Associates, Atlanta	7	19,960,348	110,303,810	136,248,898
Southwest Corporation, Tul- sa, Okla. (organizing)	18			138,000,000
Commerce Trust group, Kansas City	5	10,127,245	98,618,140	110,723,431
Old Colony Associates, Bos- ton	19	16,579,421	94,743,708	116,227,526
Banco Kentucky Corporation, Louisville	6	14,696,624	94,606,725	120,710,615
First Seattle Dexter Horton group, Seattle	7	11,267,758	93,029,921	109,978,770
Citizens & Southern Holding Co., Savannah	7	10,159,543	68,489,950	80,789,122
Bancohio Corporation, Columbus	4	10,045,257	67,245,149	79,834,148
Financial Institutions (Inc.), Portland, Me.	10	7,162,000	62,200,000	71,500,000
First National group, Port- land, Oreg.	4	5,390,289	48,861,309	54,795,916
Federal National Affiliates, Boston	8	4,730,146	54,007,998	61,640,635
First Security Corporation, Ogden, Utah	25	5,015,691	45,543,921	51,062,654
Marine Bancorporation, Seattle	10	5,631,894	41,809,934	50,815,982
Hamilton National Asso- ciates, Chattanooga (or- ganizing)	12			50,000,000
Old National Corporation, Spokane	22	3,876,026	37,196,509	43,890,203
Worcester County National Affiliates, Worcester, Mass.	6	4,500,000	37,000,000	43,500,000
Atlantic Trust Co., Jackson- ville, Fla.	6	3,808,689	33,938,262	38,436,667
Fletcher Savings & Trust, Indianapolis	7	3,538,753	26,899,435	31,094,569
First National group, Miami, Fla.	6	3,849,499	22,539,545	26,700,848
First Nebraska Bancorpora- tion (organizing)				25,000,000
Tov National group, Sioux City, Iowa	19	2,520,768	21,434,044	24,352,809
West Coast Bancorporation, Portland, Oreg.	9	2,420,145	20,526,431	23,352,951
American Traders Security Corporation, Birmingham	3	5,160,860	20,341,024	30,122,847
Commerce Union Bank group, Nashville	3	2,095,284	14,895,920	18,976,339
Pacific Bancorporation, Port- land, Oreg.	10	1,291,176	11,918,747	13,738,186
Total (38 groups)	547	1,012,648,807	6,635,003,140	8,505,255,969

Other group systems exist throughout the United States than those listed above. The above tabulation, however, comprises what might be termed the leading "visible" groups, as far as can be determined at this writing, being with few exceptions the groups which are openly committed to group-banking policy and advertising or linked through interlocking directorates.

NUMBER OF BANKS OPERATING BRANCHES
AND NUMBER OF BRANCHES IN
OPERATION, BY STATES,
DEC. 31, 1929²⁰

Class of bank or State	Number of Banks operating branches	Number of branches
Total	822	3,547
National	166	1,027
State member	180	1,299
State nonmember	407	1,115
Mutual savings	65	99
Private	4	7

STATE-WIDE BRANCH BANKING PERMITTED

Total	216	1,286
Arizona	7	22
California	53	863
Delaware	7	13
Dist. of Columbia	12	24
Maryland	30	124
North Carolina	39	77
Rhode Island	11	35
South Carolina	11	57
Vermont	7	10
Virginia	39	61

²⁰ Compiled by the Federal Reserve Board. *Federal Reserve Bulletin*.
p. 151. April, 1930.

BRANCHES RESTRICTED AS TO LOCATION

Class of bank or State	Number of Banks operating branches	Number of branches
Total	581	2,207
Georgia	16	39
Kentucky	10	28
Louisiana	42	106
Maine	24	63
Massachusetts	88	161
Michigan	62	439
Mississippi	11	25
New Jersey	55	103
New York	106	722
Ohio	55	268
Pennsylvania	80	185
Tennessee	32	68

ESTABLISHMENT OF BRANCHES
PROHIBITED BY LAW¹

Total	25	54
Alabama	5	19
Arkansas	2	3
Florida		
Indiana	4	9
Minnesota	2	6
Nebraska	2	2
Oregon	1	1
Washington	3	5
Wisconsin	6	9

¹ Branches reported were established prior to prohibitory legislation. Other states which have prohibited establishment of branches in which no branches were in operation include Colorado, Connecticut, Idaho, Illinois, Iowa, Kansas, Missouri, Montana, Nevada, New Mexico, Texas, Utah, West Virginia. States which have enacted no legislation respecting branch banking in which, also, no branches were in operation include: New Hampshire, North Dakota, Oklahoma, South Dakota, and Wyoming.

SUMMARY OF STATE LAWS RELATING
TO BRANCH BANKING ²¹

States permitting state-wide branch banking	States permitting branch banking within limited areas	States prohibiting branch banking	States having no legislation regarding branch banking
Arizona California Delaware Maryland North Carolina Rhode Island South Carolina Vermont ³¹ Virginia	Georgia ²² Louisiana ²⁴ Maine ²⁸ Massachusetts ²⁷ Mississippi ²³ New Jersey ²⁹ New York ³⁰ Ohio ³² Pennsylvania ³³ Tennessee ³⁴	Alabama Arkansas Colorado Connecticut Florida Idaho Illinois Indiana Iowa Kansas Minnesota Missouri Montana Nebraska Nevada New Mexico Oregon Texas Utah Washington West Virginia Wisconsin	Kentucky ²³ Michigan ²⁵ New Hampshire North Dakota Oklahoma South Dakota Wyoming
Total, 9	Total, 10	Total, 22	Total, 7

²¹ *Federal Reserve Bulletin*. p. 258. April, 1930.

²² City or municipality.

²³ No provisions regarding branches, but court decisions permit establishment of additional offices or agencies to receive deposits and pay checks.

²⁴ Municipality or Parish.

²⁵ "Industrial banks" may establish branches in city or village or head office; but no provisions covering establishment of branches by other banking institutions.

²⁶ County or adjoining county.

²⁷ Same town.

²⁸ Same city.

²⁹ Same city, town, township, borough, or village.

³⁰ City limits.

³¹ No provisions regarding branches but state-wide establishment of "agencies" permitted.

³² Same city, or city or village contiguous thereto.

³³ Corporate limits of same place.

³⁴ County.

AFFIRMATIVE DISCUSSION

THE NEED OF A NEW BANKING POLICY ¹

Before I attempt to set forth any conclusions or suggest any remedies I wish to present a few salient facts and statistics which in the main tell their own story. In the course of the development of this country there have been evolved two types of banks; namely, the metropolitan bank, which serves a city population and the larger business enterprises, and the country bank, which serves the rural communities and the independent business houses in the smaller cities. The metropolitan banks, by virtue of their large capital, their access to a great diversity of banking business, and their ability to secure the most highly trained personnel, are in a prosperous condition and reflect (as all banks should) the general strength of industry and commerce.

However, about three-fourths of the banks in the United States are outside of the metropolitan centers, and it is these banks which serve the majority of our population. They necessarily have a small investment of capital funds because there is not enough banking business in their localities to justify a larger capital. More than three-fourths of all national banks are capitalized at less than \$200,000. The ratio is even less for the state banks. A study of bank earnings covering the last two or three years, which have been years of general business prosperity, shows that a large percentage of banks outside of the principal cities are operating with insufficient earnings. Taking 1927 as a typical year, 966 national banks

¹ Address of John W. Pole, Comptroller of the Currency, before the annual convention of the American Bankers Association, 1929. Reprinted in the *Commercial and Financial Chronicle*. Sec. 2. p. 65-7. October 19, 1929.

operated at a loss, and an additional 2,000 earned less than 5 per cent. In other words, about 38 per cent of all national banks earned for the year 1927 less than the yield of a high grade security. It is well-known that the earning capacity of the general run of country national banks is certainly not below that of the state banks similarly situated.

Current statistics for state banks are incomplete for the whole country, but figures are available for the calendar year 1926, which show that about 2,000 state banks operated at a loss. The average earnings of all banks, national and state, in one of our great agricultural states for the years 1924 to 1928, inclusive, were less than $1\frac{1}{2}$ per cent on invested capital. In four other great Middle Western states comprising both agricultural and industrial activities, 2,053 banks, national and state, earned in 1927 less than 6 per cent on invested capital.

BANK FAILURES

The inability of many country banks to earn a fair profit upon invested capital is naturally reflected in the large number of failures which have occurred during the past eight years. From 1921 to 1928, inclusive, about 5,000 banks closed their doors and tied up deposits of more than \$1,500,000,000. Of this number, 700 were national banks and 4,300 were state banks. In four states from 40 to 53 per cent of all banks in existence in 1920 failed; from 20 to 40 per cent in six states; and from 10 to 20 per cent in ten other states. Only two small Eastern states have had no bank failures within this period. Eighty per cent of these failures occurred in cities with a population of less than 3,000, and about 70 per cent of the failed banks were capitalized at \$50,000 or less.

I have, upon a previous occasion, discussed the social and economic changes through which the rural communities have passed since the World War, and I shall not

go further into that question, at this time, than to say that the country bank faces vastly different conditions from those which confronted it in 1913.

I do not wish to be misunderstood as putting all country banks into the same category. There are many country banks that are sound and prosperous because they are in a position to obtain diversification of their business or are managed with unusual skill and conservatism. But surely the failure of between five and six thousand country banks to which the savings of small depositors had been intrusted is a serious indictment against the system of banking in the rural communities of the United States. The burden of these failures has fallen upon those least able to bear it, and they have suffered both as depositors and as stockholders.

The principal remedy which has been tried in the past for bank failures is the government guarantee of bank deposits. It may be definitely said that this remedy has failed wherever it has been adopted. There are those who have advocated stronger capitalization and more capable management for the country banks. This doctrine has been preached for years without avail, for the simple reason that the local business is not of sufficient volume to justify the larger capital or the employment of a more highly trained management. Many causes have been assigned for bank failures in the country districts, but one primary and fundamental cause covers all of the others; namely, that diversification of business is not generally possible. Without diversification, there can be no assurance of success in the long run.

The condition which I have pointed out above is a present condition for the figures which are available for the year 1929 show that 52 national banks and 403 state banks have failed within the last eight months. If these facts as to earnings and as to bank failures had been presented at the close of eight years of business stagnation and financial depressions there might be no cause

for concern. But the contrary is the case. The last eight years have witnessed the greatest business activity, commercial expansion and financial strength the country has ever seen. Does not, therefore, the failure of so many country banks to share proportionately in this increased prosperity clearly indicate that there is a fundamental weakness in our banking system? Is it fair or just, or reasonable, to subject so many of our people to the hazards of continued bank failures? Where is the responsibility for this condition? It is not primarily upon the bankers. The responsibility of the banker is to operate his bank safely and profitably within the limits prescribed by law but the responsibility for the system of banking under which he operates is upon the Government of the United States in the case of national banks and upon the state government in the case of state banks. I shall return to this consideration before I close.

GROUP BANKING

Notwithstanding the technical restrictions in the law against the establishment of branches in the country districts by banks in the cities, there has developed since the McFadden Act a new form of branch banking which appears to be without legal objection. For many years single individuals or groups of individuals have owned the majority of the stock of more than one bank. These banks were usually small and operated within a limited geographical area. This phenomenon was regarded as being without particular economic significance. The term group banking has come to be used to embrace a new type of bank ownership. A central financial corporation acquires the controlling interest in the stock of a number of banks, one of which is a metropolitan bank around which the others are grouped. Although technically each bank in the group is a separate corporation operating with a local board of directors, practically each member of the group depends upon a central management which

controls the banking policy of the group. The financial responsibility of the central ownership and management is the main support of the group.

This movement is so new and is developing with such apparent rapidity that it is not possible to present complete statistical information about it. Strong financial groups for this purpose have been formed in practically every great commercial center of the country. Some of these have already progressed to the point where they own from twenty-five to fifty banks. It is reported that there are 230 groups in existence in the United States including groups owned by individuals, and that they own about 2,000 banks. These figures are believed to be approximately correct.

Considering group banking as a phase or form of branch banking and counting each branch as a banking office, there are about 29,000 banking offices in the country as a whole, 6,000 of which are not strictly speaking unit banks. In other words, something over 20 per cent of all banking offices in the United States may be classed as branch banks.

Banking groups in the large cities which are thus obtaining control over country banks appear to be driven by economic necessity to using this method of extending the services of the metropolitan banks to the rural communities. They no doubt realize that the method used is more cumbersome and more expensive than branch banking in its proper sense. With the best of intentions, the most capable management and the highest financial responsibility on the part of a central group—and many of these groups meet these high qualifications—the group can never be operated with the economy, the flexibility and the singleness of policy which is possible under a branch system. If the laws permitted the establishment of branches in the country districts by these banks, group banking would disappear and the country districts would be able to do business directly with strong city banks.

While it is undoubtedly true that a strong metropolitan bank may, through the group system, greatly improve the rural banking situation by putting behind a group of country banks its financial strength and skill of management, it is debatable whether or not this form of banking is the best remedy for the situation which confronts us. The central management of a group must operate through a number of separate corporations, each of which must maintain its own operating status under the banking laws with a full complement of banking overhead. Diversification of banking business in the group and the use of liquid funds can only be obtained by transferring assets from a bank in one locality to that in another, at the same time maintaining the separate financial condition of each bank at the required standard. In the case of a group composed of both national and state banks this procedure complicates the work of the supervising authorities. While the condition of each bank may be determined, the condition of the group as a whole does not come under the visitorial powers of the government concerned.

In the absence of government permission for branch banking in its true sense, present developments indicate that group banking, under the force of economic law, may eventually displace the present system of country unit banks.

THE EXTENSION OF BRANCH BANKING

I have given long and careful study to this question and have conferred with representative bankers of all classes. I have caused to be gathered comprehensive statistics on bank operations throughout the country. After reviewing all of the discussions concerning branch banking before and since the McFadden Act and having in mind that this should not be regarded as a controversy solely between bankers, but that the interest of the general public also be given full consideration, I have reached the conclusion that an extension of branch banking privileges should be granted to national banks.

That it should not be nation-wide will be generally admitted. It has been suggested that branch banking be limited to the confines of each Federal reserve district. This may not be feasible to the same extent in all Federal reserve districts. Restricting it to state boundaries, which are political, rather than economic, presents difficulties, as does the suggestion that a radius of 50 or 100 miles from the parent bank be fixed, but there is an economic area to which the extension of branch banking can be applied, varying in size to meet the diversified conditions that exist in this vast country.

It is for Congress ultimately to fix the boundaries of these districts; but Congress, of course, would not and could not attempt to do so prior to careful consideration and study of all of the factors, which could only be carried on by a committee of qualified experts. Would we not be making real progress if, at the coming session, the Congress were to instruct, let us say, the Secretary of the Treasury, the Governor of the Federal Reserve Board and the Comptroller of the Currency to study the banking situation and to report the boundaries which they would recommend that the Congress set up, establishing such definite areas?

In order that this development, within whatever economic areas may be determined upon by Congress, may be sound and orderly, it should be protected by three safeguards: First, that Governmental supervision be further extended and intensified; second, that each parent bank be capitalized adequately to meet the responsibility of operating branches; and third, that discretion over the establishment and over the removal of every branch be vested in the Comptroller of the Currency.

Under a branch system of this character it would be possible for the parent bank to have a diversified banking business to protect it against economic depression in any one locality or in any one industrial activity or business enterprise. It would then be able to extend to the country

districts the same quality of banking services and the same safety to its depositors which the customers of metropolitan banks in the large cities now enjoy. There would, of course, still remain the question of incompetent management, and in a branch system the question of management is of the greatest importance on account of the magnitude of the enterprise. It is to this end that it seems wise that governmental supervision be developed to the point where the supervising authorities can protect the public as far as is humanly possible in this respect.

No weakly capitalized bank should be permitted to engage in branch banking, and in the ordinary course of business it is not likely that such a thing would be proposed. Nevertheless, I am in favor of a statutory requirement for a minimum capitalization which will be large enough to insure the protection of the depositors and to discharge properly the responsibilities incident to the operation of a branch system.

One of the principal reasons why the scramble for branches under the McFadden Act, prophesied by many of the opponents of the measure, failed to materialize, was undoubtedly the incorporation in that Act of the wise provision that no branch could be established without the approval of the Comptroller of the Currency. It was required that an application be filed by the bank setting forth the reasons why the branch was desired, such application to be supported by a formal resolution from its board of directors in authorization thereof. Further procedure involved the detailing of a bank examiner to make a thorough investigation, having in mind the effect of the establishment of the branch upon the local community, upon the banking situation as a whole, and upon the parent bank, and the filing with the Comptroller of the Currency of a full, written report of this investigation, along with recommendations from the Chief National Bank Examiner. Upon the basis of this information and such other information as the Comptroller might

acquire from the Federal Reserve Bank or from other sources rests the approval or denial of each application for the establishment of a branch. This procedure has been sufficient to discourage any precipitate rush, and this discretionary power lodged with the Comptroller of the Currency will enable him at all times to require a branch system to develop in an orderly manner.

What of the sound country bank which has been operating for years with profit and is serving its local community? Under the procedure outlined above such a bank could not be driven out of business through the establishment of a *de novo* branch, for the simple reason that no Comptroller of the Currency would permit it. Bank stock is a commodity with a market value, and if a stockholder wishes to sell to a branch system that is his right under the ordinary law of contract. But it is inconceivable that any Comptroller of the Currency, the proceedings of whose office are important public records, would ever lend his high responsibility to aid a branch bank unfairly to drive a local bank out of business. The successful country bank, therefore, should have nothing to fear from the recommendation which I propose.

NATIONWIDE BRANCH BANKING²

VARIETY OF SERVICES RENDERED BY BANKS

The business of banking, like any other business, is entered into primarily for profit. It is a financial service to the community for which the community pays. The growth of banking in the United States has developed ramifications in this service to such an extent that practically every financial need of business and of citizens (whether individual or corporate) may be met by banking institutions. In other words, the bank has become from

² From an article by C. W. Collins, former deputy comptroller of the currency, in the *Bankers Magazine*. p. 509-16. October, 1928.

the standpoint of the public an essential institution not only in its aspect as custodian for the deposit of money entrusted to it and as a lender of money, but also as a repository of financial advice and information; as a guide to investors; as a dealer in investment securities; as an aid in the maintenance of business obligations; as an aid in the development of new business enterprises; as an administrator of estates; as trustee under every variety of conditions involving the custody and use of trust funds; as guardian of infants; and to act in all of those fiduciary capacities in which integrity and competency are demanded and which formerly went into the hands of individual trustees. The modern bank in the complexity and efficiency of its organization is thus a far different institution from the pioneer unit bank which followed in the wake of the westward movement of our population.

Having in mind thus the presentday standard, the writer will attempt to set forth below what appears to him to be some of the essential weaknesses of unit banks, especially of those which may be classed as country banks.

LIMITATIONS OF THE SMALL COUNTRY BANK

For the reasons noted below it is the opinion of the writer that the country bank cannot in the very nature of the case meet the modern standard of service.

Competent management cannot be secured by the small country bank. Persons of the proper experience and training to manage banks will not accept the small salaries which these banks must needs pay. The marked increase in the cost of living during the last decade has greatly increased the overhead expenses of bank operations, as it has in all other lines of business, but unlike business in general the country banks have not been able to increase their incomes to correspond with the increased overhead. The result has been to lower the standard of management. This is a fundamental condition and cannot be corrected by any effort of the unit bank.

The small country bank thus cannot offer the prospects of a career to one entering the banking business. Promotions can be made only by securing a better position with some other and larger unit bank. The incentive therefore for remaining with a country bank is not on account of the hope of reward through efficiency of service. These conditions, however, do not apply to the officers of those country banks who remain with and operate the bank because they own the majority of its stock or in some other way control its operations for their personal profit. There are such unit banks where the bank is operated in the interest of a single family. There is another type of country bank which is dominated by an officer who may be interested in local enterprises and who may subordinate the welfare of the bank to the interests of his outside activities. With both of these types of unit banks the management may be theoretically competent; but the motive for a proper service to the public is lacking, thus leading in many cases to the worst form of mismanagement.

The weak capital structure and the limited resources of the country unit bank furnish an insufficient protection to the depositors of the bank in times of unusual stress. A single defalcation or robbery may wreck the bank, for the simple reason that the bank is not able to restore the loss. In other words, the fact that the bank is small is in itself a potential danger to its creditors.

Sound banking requires a diversification of loans and investments. This principle is basic. Yet it is impossible for the small country bank to meet it for the reason that as a rule country banks are so situated that they serve a one-crop, or a one-industry community. The bank has no choice in the matter and must make its loans upon the security offered by the prevailing vocation of its customers. It is at the mercy of every local economic depression. Here again is a condition which cannot be corrected by the unit bank. It must of necessity carry all of its eggs in one basket.

The country unit bank is subject to the seasonal demands for funds of its particular locality. In agricultural communities—where most of the country banks are situated—there is usually a strong demand for funds in the spring for planting and in the fall for crop movement to the markets. At other times a great proportion of the bank's funds may be idle so far as local demands are concerned. These country banks, therefore, habitually seek temporary investments outside of the community. It is impossible for them to keep their funds constantly employed in local productive enterprise. The business simply is not there.

It is impossible for the country bank to meet the service standard set up by the large city banks, a service with which the public is in ever-widening circles becoming familiar. It is useless to hold up to the eyes of the unit banker as an ideal the highly-developed service departments of the metropolitan banks. There is no possible way for the unit bank to acquire adequate credit information. It has not the experience nor the training required to avail itself of investment research and credit facilities. It is too much to expect that it could install a competent system of administrative and audit control. In the nature of the case, it cannot pattern its banking service after that of those great institutions whose daily contacts touch every possible financial relationship in the national life. By comparison, therefore, the service of the small unit bank must continue to be mediocre and inadequate. The high ideals being preached to them by well-meaning advocates are beyond the possibility of their attainment.

The physical environment of the small-town bank has undergone a number of revolutionary changes within the last two decades. The automobile road has drawn the rural populations close to the doors of the city banks. This one factor alone has rendered obsolete many small-town banks. It is becoming more and more difficult for them to maintain their independent existence in the face of the inevitable economic effect of this lessening of dis-

tance to the cities. As compared with the time when these little banks were originally established, their nearness now to the large cities can be measured by the difference between the speed of horse transportation and that of a modern automobile.

The public is entitled to an assurance of safety in bank operations. The experience during the last five years has amply demonstrated that there are times when banks in the country districts can give no such assurance. Reference need only be made to the 3657 unit bank failures in the United States from 1923 to 1927. The widespread public suffering through the loss of deposits and the sacrifices of stockholders are indictments of our unit system of banking. The unit bank, being compelled to stand upon its own bottom, in the midst of a local economic depression affecting practically all of its assets, is doomed to suffer the inevitable consequences of such a position.

DEPOSIT GUARANTY AND CONSOLIDATION NOT PROPER REMEDIES

The remedy for the weaknesses of unit banking cannot be found in any system of government guarantee of bank deposits nor can it be found in the proposed remedy of widespread consolidations. A consolidated bank in a rural community is still subject to the unavoidable handicaps mentioned above. In those cases where a consolidation leaves only one bank in a community the public interest may suffer on account of the absence of competition. It would tend to give a single group a monopoly in banking in that community. A reduction in the number of places where banking services are rendered may indeed produce a stronger bank, but it may be at the expense of public convenience.

Banking is perhaps the most conservative of our business organizations. It has been the last to adjust itself to the modern need for centralization of control over a

number of widely-separated operating units, leading to reduction in overhead, efficiency in management, improvement of service, increase of profits and strength in financial resources. In the field of production, manufacture and merchandising this development is already being accomplished. The field of banking now offers an opportunity for a similar development toward larger central units with outlying branches.

DEMONSTRATED WORTH OF BRANCH BANKING

Branch banking in the United States has already passed the experimental stage where it has been permitted to operate and has demonstrated its inherent soundness and superior ability to develop the banking business. Every weakness inherent in our system of unit country banks is met by a corresponding element of strength in the branch system.

The branches bring to the small city an office of a metropolitan bank. There is not only competent local management of the branch, but there is super-imposed above it the management and control from the head office. There is available to the branch all of the facilities of the parent bank—its credit information, its investment research and advice, its accounting methods and audit control.

The branch brings to the local community the strength of the bank as a whole. A branch situated in a one-crop country does not subject the bank to any hazard, because diversification of loans and investments is secured through other branches situated in different economic environments.

Every branch carries with it the maximum loaning limit of the bank. The bank can make a loan through any branch in as large an amount as can be made at the head office, and in communities where a considerable business enterprise may be operated it is not necessary for the borrower to go out of the community to seek banking accommodations.

The branch is a highly flexible agency. It can be operated with a minimum of overhead because it can regulate the scope of its operations according to the local need. Under a branch system, therefore, the number of banking localities would be increased rather than diminished, since there would be strong competition for business by the various branch systems. This has been the experience in Canada where some of the branches have begun operations with one clerk in a single room on the very outposts of civilization. In many cases they have reached communities in advance of the railroads. It is not necessary for a branch to be burdened with the standard overhead of a unit bank.

A well-proportioned branch system of banks is in a natural position to keep its funds employed at all times in the aid of productive enterprise. Seasonal demands for funds, instead of being a source of weakness as with the unit bank, become an element of great strength. Such a branch system will spread over a considerable geographical area in which there is a diversification of economic activities—agriculture in variety, manufacture, transportation, development of natural resources, distribution wholesale and retail, and so on. There will be a great variety of seasonal demands for funds upon the bank as a whole, but the seasonal demand upon a local branch may be once or twice a year. The bank will be able constantly to shift funds from one branch to another as these demands arise at different times. No branch will have idle funds. The branch system is thus enabled to make the greatest possible economical use of its funds in the constructive development of the country.

LIMIT OF BANKING FACILITIES NOT REACHED

The complaint is frequently heard that there are too many unit banks in the United States—that there is not room for 27,000 banks. State and Federal authorities have accepted this view, and it is becoming increasingly difficult to obtain new bank charters, state or national. It

is undoubtedly true that we have too many independent banks, but there are not too many banking locations at which the public may be served. It has already been our experience that when branch banking is inaugurated in a large city the number of banking locations more than doubles within a few years. In a country of this size and potentialities there might be under a system of branch banking over 100,000 banking locations. Each would endeavor to put a branch wherever there was a prospect of giving banking service. From the standpoint of management there would seem to be no reason why a large metropolitan bank could not successfully operate several thousand branches.

Opposition to branch banking in the United States has in the past come in the main from the officers of country unit banks. They took the view that they must fight for self-preservation, and have brought forward a number of arguments against branch banking. Experience, however, has shown that the inauguration of branch banking has the effect of increasing the value of bank stock holdings and offers to bank officials, where they are competent, a larger opportunity to continue in the banking business.

CHAIN BANKING PRELIMINARY TO BRANCH BANKING

From an economic standpoint the present development of chain banking in the United States should be regarded as a step in the direction of branch banking. Those chain systems which secure strong units in the cities will be in a position of greater advantage when branch banking is permitted in the country districts. Public confidence in the country unit bank system has already been severely shaken in several of the western and southern states. Millions in potential deposits are withheld from the local banks. There is a growing sentiment in favor of branch banking. The establishment now of chain banking systems, which will demonstrate their superiority in strength

and in service, will serve to hasten the time when the key banks in these chains will be able to take on branches in the surrounding country districts. Sooner or later there will be nationwide branch banking, at which time an entire chain may be converted into a branch system.

This conclusion would seem to be inevitable. Congress now permits national banks to establish branches in every country of the globe. A metropolitan national bank may today scatter its branches throughout Asia, Latin America, Europe and the islands of the sea. It may also establish branches inside of the city in the United States in which its head office is situated. It is clear, therefore, that Congress has no fear of branch banks. The foreign branch and the city branch have demonstrated their efficiency. Does not the next step naturally follow—that of the establishment of branches throughout the United States? If a New York bank can successfully operate a branch in Montevideo and in Shanghai, why would it not have a greater success with a branch in Buffalo or New Orleans?

Commerce and finance are not local. They are interstate and international. The national banks as instrumentalities of the Federal Government are now permitted to follow the international aspects of commerce through the establishment of branches in foreign cities where they may render directly a financial service to their customers. Congress here recognizes that finance follows the trade. yet in the United States, where commerce freely flows across the state boundaries in every direction, commercial banking has been forced into the local mould and the bank is not able to give direct accommodations to its customers except in the particular city in which the bank happens to be situated. This artificial barrier to the normal relationship of commerce and finance is perhaps one of the strongest considerations in favor of nationwide branch banking.

•

AN EXAMINATION OF OPPOSITION TO
BRANCH BANKING *

An examination of the objections to branch banking as commonly presented by the orators at bankers' associations and in bank periodicals, shows too great a propensity toward the demagogic. They are filled with appeals to local pride, sentiments and prejudice, with appeals to the small town as against the large city, to the small bank as against the large bank, and to the general public against the money power of Wall Street. The orators are vociferous in declaiming the grand development of the United States under the independent banking system and minimizing the rate of development of Canada, England and France under branch banking. The argumentation also tends to emphasize the selfish interest and almost ignores the public interest. In most cases the arguments run counter to the accepted tenets of political economy and, too often, the orator or writer assumes and posits as true, things which are not proven and cannot be proven. Let us take up some of these objections and analyze them.

In the first place, it is contended that branch banking will drain capital away from the small town toward the big city and that local capitalists and local developments will therefore suffer. . . This draining of capital would take three forms. First, in the form of taxes; these are now paid by the local bank to the local community and the local revenue would probably be reduced if a branch bank took the place of a local bank, since most of the taxes would then be paid in the big city where the parent bank was located. It is apparent that this argument does not apply to branch banks within the parent bank city. It also seems to assume that banks exist for the purpose of paying taxes; but this is no more true than that a

* From an article by Professor Ray B. Westerfield, Yale University, in *The Annalist*. p. 318, 322. October 2, 1922.

locomotive is made in order to burn coal; the purpose of the locomotive is the drawing of trains and the burning of coal is simply a necessary evil. Anyway, a state could pass legislation for the redistribution of taxes among the towns wherein branch banks are located.

In the second place, capital is supposed to be drained away to the parent city for loans, away from local investors and entrepreneurs. Any thinking individual must concede that an institution which will increase the mobility of capital is, other things being equal, economic and desirable, inasmuch as it equalizes economic opportunity, puts capital to its best uses as evidenced by the ability of borrowers to pay for it. If the local borrower is hurt the local lender is benefited by the same amount. This too commonly accepted doctrine that a local community should enjoy a monopoly of local capital is fallacious and should not be appealed to against the development of branch banking. Moreover, banking capital is now being carried away from the local banks, and increasingly so, as the practice of note brokerage, rediscounting and inter-regional borrowing develops. Undoubtedly if branch banking becomes common, some branches will be seasonally debtors and seasonally creditors, and it may be that others will be debtors or creditors for years at a stretch.

In the third place, it is argued that capital would be drained from the local community in the form of profits which now accrue to the stockholders of the local bank and in the future would go to the stockholders of the distant parent bank. It seems probable that, when local banks are taken over and made into branches of distant banks, the transaction will be carried out by an exchange of stocks of the parent bank for those of the local bank and that, therefore, if the parent and branch bank is more profitable than the local independent bank, more capital will flow to the small town than would otherwise be kept there. But whether it works this way or not, there is no more argument against investing in the shares

of distant banks than in the shares of the United States Steel or United States Rubber or any other corporation.

Another argument against branch banking is an appeal to local pride and sentiment and to local prejudice against the foreign control and direction of a bank within a town. It is contended that the local banks have a close personal interest in the community and tend to foster local development; that this interest may be lost through branch banking, the local needs being sacrificed to the demands of enterprise fostered by the parent bank. The argument aggrandizes the local town, however uneconomic such bias may be for the country as a whole. Again this argument does not apply to branch banks within the parent city. Although the manager of a branch bank would probably not be a permanent resident of the town he would be ambitious to rise and his promotion would depend upon his making good with the people of the town, and the surest step to such favor would be for him to take an active interest in promoting that town. The local clerical force and junior officers and the local stockholders and possibly a local advisory committee would still have local pride and interests and, if a local bank be made into a branch, it is probable that, for a time at least, the local banker would be retained as local manager. In summary, therefore, it does not seem that this appeal to local pride and sentiment should avail much against branch banking.

Another very important objection to branch banking is the spectre of the concentration of money power in the hands of a few banks in the big cities, at great distances, and even in controlling the Federal Reserve. The opponents of branch banking see the end of independent local banks inasmuch as local banks cannot successfully compete against a branch-banking system. It is argued that this concentration is un-democratic and un-American and monopolistic, and that local independent banks are more consonant with American life and ideals.

This argument applies with but little force to branch banking within the parent bank city. Although larger banking units must arise, monopoly need not follow. It has not followed in Canada or England, where there are still many banks with stocks widely held, and in England, when amalgamation of banks with branches in the same town has occurred, both branches have generally been kept and, therefore, the town enjoys the same service as before.

Undoubtedly the unrestricted permission to establish branch banks, not only within the parent city or throughout the state, but also in other states, would end in the elimination of independent local banks, for the latter are less economically managed on the whole. The competition of branch and local independent banks will have the same effect upon the local banks that chain stores have had on local retailers, namely of educating them in the methods of running a bank in an economic and modern way. The opposition to branch banking resembles that against chain stores and line elevators, but it is uneconomic and fruitless to cry out against more efficient, large-scale business organizations and condemn them on the ground that they are undemocratic and un-American, for it is part of Americanism and democracy to let individuals within reason develop their business units as they see fit.

The development of branch banking will ultimately make unnecessary the state superintendents of banks and state bankers associations. They will be superseded by internal examinations under the parent-bank organization and by organizations of officers of the parent and branch banks. The development of branch banking will also tend to disrupt the present relationship of city and country bank correspondents. Certain metropolitan banks will lose correspondents and business unless they, too, establish branches. But the relationship of parent and branch will be much more direct and intimate and dependable than that of correspondents and, therefore, the seasonal and panic demands for funds will be better cared for,

and an economy will be realized because it will no longer be necessary to carry balances with correspondents in order to gain the service of collections, credit advice, &c.

A common objection to branch banking is the alleged difficulties in borrowing. At the present time a local borrower visits the local banker who has full power to make the loan. In branch banking it is argued that little discretion would be allowed to the local branch manager, that he would have to refer the question of loaning to the parent office; and that, therefore, the personal relationship would be reduced, much time consumed, and the small borrower receive less attention than formerly. It does not seem that these are necessary accompaniments of branch banking. The local manager may be just as intimate with the borrower and a reference to the parent bank may not be necessary in all cases, for considerable discretion may be allowed to the branch manager in making loans, especially smaller ones. Anyway, the personal relationship of local banker and borrower too often results in poor loans, it being very difficult for the banker to deny a loan to his intimate friend, and the opportunity to say that the question of the loan must be referred to the parent bank will offer a good method of avoiding undesirable loans. The same motives for encouraging small borrowers will continue under branch banking as under independent banking; in fact, if competition is actually intensified as is commonly claimed, it is probable that small borrowers will fare better than formerly.

Another argument frequently employed by orators and writers who have the demagogic bent, is to contrast developments of countries using branch banking and those using independent banking; to boast of the great and rapid rise of the United States to her present power and greatness under independent banking; to acclaim the ease with which we financed the recent war, and to assert that the independent banking system is the safest system known. One orator declares Canada is very backward as compared with the United States and that the cause

is the fact that Canada labors under branch banking which is a "cancerous growth" in the vitals of that dominion. Another orator, who spent some of his time in England during the war, says that English banking was simply intolerable during the war.

Of course, the answer to this sort of argument is a categorical denial of the alleged facts. Canada is not backward. It is permeated with banks quite as much as is the United States, and if it has not been able to maintain the pace of development set by the United States, there are undoubtedly other great contributing causes such as climate, geographical position and contour. The United States has risen to greatness despite our banking system and not because of it. England has been and is properly regarded as the exemplar banking country of the world. England and Canada successfully financed their war, too. Panics, bank failures and financial instability have been more frequent and wasteful in the United States than in Canada or England. Little, therefore, in favor of branch banking can be made of such demagogic appeals as these.

While the foregoing examination of objections to branch banking is not inclusive, it suffices to show that the opponents should be more careful in their analysis of the problem, and more honest, less selfish, less demagogic and less errant from economic principles in their argument.

ADVANTAGES OF CANADIAN SYSTEM OF BRANCH BANKING⁴

A. ADVANTAGES DERIVED FROM LARGE SIZE OF BANKS

I. It is in connection with management that one finds a marked advantage in large banks. Organization and consolidation tend to increase efficiency, and lower the

⁴ R. M. Breckenridge. *The Canadian Banking System*, 1817-1890. p. 369-84.

cost of individual services, as well in banking as in other activities. A large bank with large funds is able to spend whatever may be necessary to secure men well endowed with talents of management. Under their guidance, at the head, it can employ in the management of its branches men who, acting on their own responsibilities, *e. g.* as managers of local banks handling no greater funds, might be unequal to their tasks. There is added efficiency at the center, a saving in expense at the branches. And of this double gain a large part is not infrequently devoted to further acquisition of marked banking ability, whereby still to increase the efficiency of the bank's organization, the safety of its business and the profits which the other results will promote. Then again, the directorate of a large bank is more likely to contain a greater proportion of quite wealthy men than a small one, and these, presumably, are somewhat abler, as careful business financiers, than others with less tangible evidence of economic success. A large bank, finally, has access to a wide territory and a great variety of conditions in which to train its officers. By transfer from one branch to another they gain in experience and versatility, are freed from local prejudice, acquire familiarity with the different kinds of customers and securities with which the diversified business of the bank is concerned, and present to the bank itself a wider choice of well known men from whom to select incumbents of its higher offices.

II. A second advantage of large banks is their great command of capital, their power to take whatever proper business may be offered them, their ability to accommodate their customers to any necessary amount. With this comes the practical possibility of restricting a customer to one bank, of requiring that his banking account be kept with but one institution. Whatever advantage accrues from restricting the credits of manufacturers and merchants to the limits which bankers well acquainted

with the financial position of their customers decide are safe, may be fully realized in a system of large banks. If the customer is dissatisfied with the regular line of credit granted to him he may remove his account to another bank. A Canadian borrower who secures advances from two or more banks is regarded with suspicion and is likely to have his custom refused by some of them when his practices, as they must be, are discovered. Under a system of small banks, such as the national banks of the United States, the practice of banking with a single concern is often impossible. The legitimate needs of a single borrower often exceed the funds at the disposal of local institutions, and should these be adequate the national bank is forbidden to lend more than 10 per cent of its paid-up capital stock to any person, firm or corporation, except on bills of exchange and commercial paper owned by the borrowers. The national banks, accordingly, are obliged in some cases to rediscount the commercial paper offered them, in others to submit to their customers having more than one banker. A third escape is opened to the borrower in the possibility of forwarding his paper to some bill-broker in the nearest large city, or in New York, and getting it discounted there. In any case there is a complication added to the artificial structure of credit, and incompleteness in the knowledge which the lender should have of the debtor's position. In the first and last cases an intermediate series of debtors and creditors may enter between the original borrower and the ultimate lender. This exaggerates the sensitiveness of credit by widening the area of interdependence, a result quite unnecessary in a system of large banks.

III. Third, large banks have great stability and strength. The security they afford to note holders, depositors and other creditors is usually superior. The proportion of capital, rest and reserve liability of shareholders to the bank's general liabilities is not necessarily greater than in the case of small banks. . . It is because

the management of a large bank is presumably able, and its stake depending on care and caution so great, that the creditors of a large bank enjoy a high degree of security. Every instinct of self-preservation demands that unusual risks or speculative investments be avoided; that safe rather than brilliant banking be the guiding policy. When losses are incurred, a large bank can bear and write off defaults that would definitely swamp a small bank. Take for example the occasions on which the Bank of Montreal, though not explicit as to the amounts, has acknowledged the loss of a million dollars, the time that the Merchants' Bank reduced its stock from nine millions to six, or that the Ontario Bank wrote \$1,500,000 from its capital, or again the reduction of \$1,100,000 on account of bad debts made in the rest of the Canadian Bank of Commerce in 1887.

IV. Lastly, public criticism, a valuable restraint in any system, is more acute and concentrated when banks are large. Confidence, as a condition precedent of banking development, should be well founded and reasonable. . . But where banks are small and many, the attention of the critics tends to be dissipated, their interest to be diminished. To concentrate criticism its objects must be few, and if the banks are few they must be large.

B. ADVANTAGES DERIVED FROM SYSTEMS OF BRANCHES

I. The collection and distribution of loanable capital from and to different parts of the country are accomplished at the minimum of expense and with the maximum of thoroughness. When the instrument of both the services is a single organization such as a large bank with numerous branches, the task is better performed, it would seem, and certainly at less cost than when two or more banks are necessary to the same series of services, and each must be rewarded for its part. The same Canadian bank that collects capital from the older, accumula-

ting districts in the form of deposits, transfers it to the centers of industry and commerce, or to those districts for whose development and activities more capital is needed than can be supplied from the local stock. The process of intelligent distribution is facilitated by the knowledge of local conditions had by the parent bank from the officers of its branches, and the consequent ability to loan when the demand is great, with the same safety as a local lender. Where the banks are merely local, the specialized knowledge frequently lacks the necessary funds. The banks of Massachusetts, *e. g.*, may have hard work to find satisfactory investments at 4 per cent while Colorado banks are offered more good discounts at 10 per cent than they can take. But the Canadian banks are not local; their interests and their activity are bounded, not by the confines of a single town, but by the borders of an entire province or of the Dominion itself. They borrow capital where they can get it and loan it where it is needed. "So perfectly is this distribution of capital made, that as between the highest class borrower in Montreal or Toronto, and the ordinary merchant in the Northwest, the difference in interest paid is not more than one to two per cent."⁵ On loans of equal security the interest charged will not vary one per cent the country over, whether the debt is contracted in Halifax, Quebec, Hamilton, Calgary or Vancouver.

This unqualified advantage may be summed up as a national equalization of the rate of interest through economies in the cost of transferring capital, and a highly effective system of arbitrage.

II. Ample facilities are afforded to small towns, isolated borrowers and the country generally. For the purposes of good investment a branch has resources limited only by available funds of the great bank of which it is a part. The petroleum producers, the great wheat farmers in the Northwest, the distillers in small Ontario towns, or the packing houses and lumber firms in little

⁵ From article "Banking in Canada" by B. E. Wallace, in *Journal of the Canadian Bankers' Association*, v. 1, p. 18.

New Brunswick villages, have, almost at their doors, agencies of the greatest banks in the Dominion, ready and able to advance on the security of unmarketed products or goods in course of manufacture, to buy their sterling exchange or to discount the paper arising from other transactions already concluded. Produce shippers have access to like conveniences, no matter, practically, how remote or unimportant the district in which they operate. No worthy industry, whatever its distance from the centers, need droop for lack of banking facilities. The agricultural districts are provided with places near at hand for the deposit of their savings, and they are given liberal accommodation, at seed time, before harvest and whenever else there is a prospect that the use of the loan will provide the means for its payment.

III. The risks of investment are distributed and varied, and the banks are more certain of regular profits. Unlike that of the national banks, their prosperity is not largely dependent upon the fortunes of single towns or sections. Nothing is more emphasized by Canadian bank managers than the inevitable condition of a bank's gain or loss, viz., the prosperity of its customers as a whole. Under the branch system, however, the losses, bad harvests, or depression in one part of a bank's territory are set off against the good crops and more successful issue of the year's business in another. This, to a great extent, was the case with losses incurred by the banks with branches in Manitoba, after the Northwest boom collapsed in 1882, and dozens of other examples might be cited from the reports of shareholders' annual meetings. It may be objected that all this involves having too many irons in the fire, just as it may be said that in affording ample facility to the borrowers of his neighborhood a branch manager may exceed the limit of safety. But the first objection will not hold if the organization of the bank is thorough; the second will be due to faults in judgment from which no man is sure to be free.

Branch banking is still a case of not carrying all the eggs in one basket; the gain in stability and the strength to survive local disasters is enormous.

V. A fifth advantage lies in the centralization of bank management, and nationalization, so to speak, of banking policy. I have called the Canadian system decentralized, because there is no enormous central bank domineering over all the others, and because there is competition, much of it, too, in every department of banking. The business of the banks comes from every part of the country; the obligation to "take care of customers" is as strong in the lumber village of northern Ontario as in St. James street, Montreal. Here comes the nationalization of banking policy; the interests and responsibilities of the banks are wide; the measures they take at one time and another must be broad of purpose and generally beneficial to correspond. In times of stringency or impending panic they must heed the welfare of their province or of the entire country; upon it depends their own. The branch system, moreover, prevents to a great degree the antagonism of interests in a panic or time of contraction between a great number of establishments, each selfishly intent on self-preservation, and anxious to store away all possible cash against the threatened day of trial. The reserves of branches are the reserves of parent banks; the country offices have the same interests as the city establishments; the branches, further, are subject to orders from the head offices at the centers. There may be hoarding, but reserves are not scattered through the country; they are kept at the centers where the heaviest payments are eventually set off against each other. There is no parallel in Canadian experience to the American crisis of 1893, and so far as that action at cross purposes by city and country banks which preceded the culmination of the difficulty is concerned, a parallel would be impossible.

VI. Branch banking tends to promote more judicious and impartial administration of the lending powers of

the bank than local banking. The confidential character of banking transactions is better secured. The manager of a branch has ordinarily received his training in a variety of situations. He is likely to deal as a *banker* with the clients of his branch, and not to be exposed, not to be subject, to the influences of friendship, family ties and business connections; in all important questions he must consult his head office. Instead of having his affairs discussed by his acquaintances, perhaps by his competitors on the board of a local bank, the applicant for credit receives impartial treatment from the remote and disinterested general manager on the basis of his own and the branch manager's statements of the facts necessary to a decision.

VII. The educative effect of this type of bank organization is not without importance. A certain improvement in the commercial habits of the people with whom the business is carried on is usually ascribed to the introduction of any sort of banking. What special benefits of this character the branch system favors have been touched upon in the preceding paragraph; they are largely due to the excellent training of branch managers, their lack of prejudice and the possibility through them to bring close to the people the exact and thorough methods of the highest type of urban banking.

MERITS OF BRANCH BANKING ILLUSTRATED BY ENGLISH EXPERIENCE⁶

I. *Diversity of assets is secured.* The ideal bank portfolio contains paper representing advances made to many diversified industries with a wide geographical spread. Such a portfolio becomes a reality in the case of the English banks with branches throughout the coun-

⁶ From *Branch Banking in England*, p. 121-33 passim, by Luther A. Harr, assistant professor of finance, University of Pennsylvania. The introductory sentence of each section (in italics) is supplied by the compiler. Reprinted by permission of the University of Pennsylvania Press.

try. This, unfortunately, cannot be said of most of the unit banks operating in the United States, where the majority of the bank failures previously referred to were caused by the extension of credit to customers representing too limited a number of industries. The opportunity for making loans based upon diversified security does not exist in the case of most of the unit banks, because they are usually located in "one industry" sections of the country.

II. *Branch banking facilitates the clearing and collection of checks.* It is obvious that intrabank cheques can be readily and rapidly cleared through the head office, but furthermore, as has been mentioned previously, the fact that the head offices of the five joint-stock banks are all located in London has made it possible to concentrate and clear a large proportion of interbank cheques through the London Clearing House. As a result, there exists in England a rapidity of clearing impossible with the unit banking systems of the United States. The lessened time required in clearing, together with the reduction in the size of the float, means a saving of substantial value to the depositors and business concerns of England.

III. *Banking costs are reduced.* Branch banking tends to cut down the overhead costs of doing business, but the reduction takes place mainly through an increase in the volume of business made possible by the judicious placement of branches. The statement was made to the effect that practically three to five years would elapse before a new branch would be operated profitably. The English banks do not have to demonstrate their strength and soundness by erecting massive and ostentatious buildings for their branches and many of the latter are housed in inexpensively constructed buildings and manned by a staff of perhaps only two employees. The customer is familiar with the reputation and standing of the Big Five. The savings because of these circumstances are tremendous compared with the construction expenses of the

buildings occupied by even the small unit bank desirous of attracting and impressing the public by imposing structures.

IV. *Rural communities, instead of being deprived of funds by branch banking, are more plentifully supplied.* Those opposed to branch banking in the United States frequently have made the statement that branch banking in practice concentrates wealth in the large cities at the expense of the rural districts. It does this, the critics state, by receiving deposits in the rural districts and lending the major part of the credit based on these deposits to industries and financial organizations located in the large city districts. The results of branch banking in England have not substantiated this criticism, in so far as England is concerned. On the contrary, it appears as if the rural districts receive more credit from the banks with branches than could possibly have been furnished by unit banks. Many rural districts exist which could not support the running expenses of an independent unit institution but in which the large joint-stock banks have opened branches. In some cases these branches will be open for business for perhaps only two or three days a week, but they afford banking facilities for the community.

V. *Branch banks are eager to aid in the economic development of their communities.* Objectors to branch banking state that the professional branch bank managers will view the loan application in a cold-blooded manner, and thus will not make a loan based primarily upon the character of the applicant for credit. It has been found in England that the branch managers are naturally desirous of increasing the business of the branch over which they hold jurisdiction, and consequently they study the complexion of the community served by the branch and endeavor to become familiar with its problems. It is well to keep in mind the rather strenuous competition existing between the branches of the five large banks lo-

cated in the same district. In some cases the bank retains an advisory board made up of local business men whose duties are to suggest to the managers of the branch ways and means for increasing the business of the branch.

VI. *Branch banking develops trained and capable bankers.* It is undoubtedly true that branch banking in England encourages the development of professional bankers. The minor executives of the bank, including the many branch managers, are in most cases employees of many years' standing with the bank, who have displayed unusual aptitude not only in their work in the bank, but also in the prescribed course of study which bank employees must take if they desire advancement. The presence of a large group of trained bankers certainly tends to raise banking standards and benefits the whole country. The turnover among the employees of a large English bank is comparatively slight. This is partly due to the advancement open to the employees. They know for example that the future managers of the numerous branches will be chosen from among their ranks, and the possibility of this promotion is an incentive.

VII. *The English banking system has withstood the most trying tests.* The investigation in England disclosed the many advantages of modern branch banking as contrasted with unit banking practised in the United States. If in 1926, a comparatively prosperous year, the United States suffers approximately one thousand bank failures, what can be expected in a year of depression? Challengingly to the United States the brilliant fact stands out that, notwithstanding the seemingly insuperable war and post-war financial problems, the complex international political situation, the serious labor difficulties, the long-drawn-out economic depression, and the lack of an elastic currency, the banking system of England has not suffered any serious failures or insolvencies among its members during this post-war period.

STATEMENT OF GEORGE F. RAND,
PRESIDENT MARINE MIDLAND
CORPORATION, BUFFALO, N. Y.¹

INTRODUCTION

While the term "group banking" is of comparatively recent origin, the need for such a relationship between the larger city banks and the smaller town banks has been becoming increasingly evident to us for years past.

The traditional American banking system functioned for many years, before the era of the automobile, good roads, radio, consolidations in industry, etc., quite successfully. Changing business methods have, however, made it increasingly difficult to transact business in the smaller towns profitably as heretofore. Where formerly there were possibly 15 or 20 small or moderate-sized manufacturing concerns or jobbers in a city of 25,000, there are now perhaps 4 or 5 big companies. If these operate as branches of a parent corporation, the bank balance which they carry in that community is probably reduced to petty cash or pay-roll accounts. If, on the other hand, they are the head offices of large corporations, their credit requirements are probably in excess of the available bank credit in that community, and if they have large bank balances, these are probably carried in the larger metropolitan banks either for the purpose of assuring adequate lines of credit or possibly as a matter of safety. These conditions apply even in cities the size of Niagara Falls, Troy, and Rochester, the population of which ranges from 80,000 to 250,000.

We have had small banks come to us to sell or re-discount either secured or unsecured paper which they are unable to handle on account of certain definite limitations, perhaps because of insufficient resources. They

¹ *Hearings.* Op. cit. v. 2. pt. 9. p. 1174-5, 1178-85.

have come to us pledging bonds other than government securities, usually when bond prices are low and money is in demand in their local communities. They have even been forced to sell securities at times when they have had to take losses of a substantial character.

On the other hand, occasionally, lacking a sound local market for their funds, in order to keep their money in use, we have seen such banks take unsound credit risks locally or purchase investments in an inexperienced way, being unduly influenced by the prospective yield. From our experience we might cite instances where credit has not been granted to local enterprises because the amounts involved were not within the ability of the local bank to loan. The same local enterprises have found it difficult to obtain credit under the correspondent banking system because the granting of such credit involved an intimate knowledge of the company's management. Under the system of group banking such credit is extended, because through the local unit in the group there exists the necessary intimate knowledge of the company's affairs and the resources of the entire group are thereby made available to it.

The management of the Marine Trust Co. of Buffalo has for years had an interest in a small city bank (the First Trust Co., of Tonawanda). Through its affiliation this local bank has been able to keep its funds safely and profitably invested and to supply the credit requirements of its community so adequately that although it is in a city of 15,000 population, no other bank has been started there, every other bank having failed years ago. Because of its relationship with the Marine Trust Co., this bank has experienced few of the difficulties which beset the management of the average small bank operating alone.

Our experience with these conditions and knowledge of these facts prompted us to form the Marine Midland group.

MARINE MIDLAND GROUP (INC.)

Marine Midland Corporation is purely a holding corporation, organized under the laws of Delaware and transacting no business in the State of New York. For the purpose of affording the various banks in the group the benefits of centralized supervision, cooperative buying and selling of securities, stabilization of methods of operation, cooperative purchasing and advertising and the other advantages which naturally accrue from group organization, the above corporation was organized under the laws of New York as a management company.

This company has only a nominal capitalization and all of its stock is owned by the trust companies or officials of the banks comprising the group. It has its head office in Buffalo and a board of directors comprising representatives from all of the banks in the group. Under management contracts with each bank, its expenses are prorated quarterly among the various banks in proportion to their deposits at the beginning of the quarter. This company has adopted a very carefully worked out program covering the service which it renders and will render to the members of the group, which may be analyzed as follows:

1. *Supervision and examinations.*—An expert examiner, who was formerly a chief bank examiner of the New York State banking department, has been secured to head this department. He, with his associates, and with the assistance of auditors drawn from other banks than the one being examined, will conduct frequent examinations of the various member banks, thus insuring that they will be maintained in excellent condition, that their methods will be up to date and standardized according to the best accounting practice, and that any weaknesses will be promptly discovered. The best methods developed in any one bank will be made available for all in the group. This we conceive to be the most important service rendered available by the group system, and one

which will inevitably tend to weed out incompetent officials and doubtful loans, build up the standards of each separate bank, and give to the smallest institution the same high character of supervision otherwise available only to the larger institutions.

2. *Advertising and new business.* Through the management company a national publicity campaign is being carried on which has certain unique features. Each advertisement has reference specifically to one of the communities in which the Marine Midland Group operates and features that city and the particular bank located there, Batten, Barton, Durstine & Osborn have been retained as publicity counsel, and a comprehensive program is being worked out by which all the banks will benefit from the publicity of each and the development of the local community in which each is operating will be consistently advocated.

Representatives of this department will also be constantly on the alert to obtain new business for the various member banks. This department will furnish a clearing house where all information regarding business developments which offer opportunity for banking service will be noted and followed up. Through having the combined resources of all the member banks at their disposal, representatives of this department will be able to offer lines of credit and other banking service commensurate with the needs of the largest corporate enterprises in the country.

3. *Bonds and Investments.* One of the important divisions of this management corporation is that which will analyze the investments of the various banks and assist them in making changes in their portfolios. The highest class of investment service will thus be available for each bank and information possessed by any one will be open to all. Experts have been at work for months analyzing the portfolios of the various banks and recommending changes in the investments tending to strengthen

the list and increase the rate of return. Their advice will always be obtained before any changes are made, and they will likewise call the attention of the several banks to opportunities for profitable and safe investments as they arise.

4. *Central credit file.* A central credit file is being inaugurated which will contain credit information regarding customers or prospects whose principal offices are located outside the immediate territory served by the group. This will be of great value to any member considering increasing lines to such customers or extending lines to new prospects. In addition, the credit files of each bank will, of course, be at the disposal of all the members.

5. *Central purchasing bureau.* As standardized forms and equipment are introduced throughout the group, economies will be effected through the employment of the services of this department in making purchases in larger quantities and on better terms than otherwise possible.

6. *Trust departments.* One of the most important services will be that pertaining to the trust departments of the various institutions. Here, especially, the smaller banks are lacking in the experience and facilities which would enable them to develop trust business in their communities. Efficient trust officers will be at the disposal of all the members of the group, so that the internal organizations of their trust departments will be standardized, enlarged, and improved, and their external relations with the community correspondingly developed.

7. *Miscellaneous.* In addition to the services outlined above, this company will be in a position to help the member banks in many other ways, as for instance in developing their travel departments, their foreign departments, their real-estate and mortgage departments, and in all the other branches of banking.

One which should perhaps receive special mention is that of industrial survey and financial advice. The com-

pany will supply experts to study the business methods and conditions of customers who are not making good, and to give advice regarding changes in business methods or capital structure, by means of which results advantageous to the banks and customers alike may be obtained.

RELATION TO GOVERNMENTAL OFFICIALS

Marine Midland voluntarily offered to permit the New York State superintendent of banks to examine its business, affairs, and records at any time as fully as though it were subject by law to such an examination. Later, the New York Legislature amended the banking law so as to extend the jurisdiction of the banking department to corporations affiliated with state banks or trust companies, and the governor has approved this bill. In my opinion this is a proper arrangement. We are equally willing to submit to examination by the Comptroller of the Currency, since some of our banks are national banks and others are members of the Federal reserve system.

STOCKHOLDERS' LIABILITY FOR ASSESSMENTS

Under both federal and state laws, the stockholders of banks and trust companies are liable to an assessment for the benefit of creditors in an amount equal to the par value of the stock owned by them. Bank holding corporations have sometimes been criticized on the ground that they constitute an evasion of this liability. I feel that the contrary is the case, and that such a corporation, properly organized and conducted, makes the stockholders' liability much more readily enforceable.

Experience has demonstrated that under the ordinary unit banking conditions less than 50 per cent of such liability is in practice actually collected. Contrast this with our own situation. It is almost inconceivable that a condition could arise among our banks where the stockholders' liability could not be enforced 100 per cent. The

total authorized capital stock of all our banks is \$28,025,000, which is, therefore, the extent of stockholders' liability, if all the banks should fail so badly as to make the maximum assessments necessary. Against this, Marine Midland Corporation has over \$45,000,000 in cash, outside its investment in bank stocks, and it is our policy to keep at all times an amount in cash or its equivalent equal to our aggregate stockholders' liability on the bank stocks owned by us. It is, however, beyond the bounds of probability that any such situation as the failure of all the banks should arise. If it did, it could only be as the result of such a cataclysmic financial debacle as would render the ordinary individual stockholders' liability actually unenforceable to any extent.

Experience has demonstrated that in nearly all cases it is the smaller banks which get into difficulties requiring resort to assessments against the stockholders. When we remember that the total surplus and undivided profits of our banks combined is \$42,134,389.72, as of March 31, 1930, or half again as much as their total authorized capital, and that the Marine Midland Corporation owns substantially all of this surplus and undivided profits in other banks (in addition to its other resources) it is readily seen that payment of an assessment by any one bank in full is assured. Certainly, therefore, the depositors have vastly stronger protection than in cases where the stock of a bank is widely scattered among individual holders of every variety of type, business, and financial responsibility.

If a holding company were organized to own only the stock of a single bank, and no other assets, then it might properly be said to constitute an evasion of the stockholders' liability. But where, as in our case, the holding company owns the stock of a large group of banks, located in many different communities, and serving widely varying industries, and has also a substantial worth outside of such bank stocks, there can be no

possible conclusion but that the stockholders' liability becomes a much more readily enforceable and valuable asset of each separate bank. Moreover, the actual obligation of the holding company to protect every bank in its group is far greater than the legal requirements represented by its stockholders' liability. It would be fatal for it to permit any single bank controlled by it to fail for any cause whatever. Its moral responsibility goes far beyond its legal obligations as a stockholder.

GROUP BANKING THE NATURAL RESULT OF MODERN ECONOMIC TENDENCIES

During the past ten years the methods of conducting business in this country have been revolutionized. . .

The banking system has not kept pace with all these changes. On the contrary, it tried to continue unchanged the traditional American ideal of the small, independent banker operating in thousands of small communities. The changed business conditions, as well as the agricultural depression, cut off the former sources of profit for such bankers, so that thousands failed, and other thousands have been on the verge of failure.

In the ten years from 1920 to 1929, inclusive, about 750 national banks and 4,900 state banks, mostly small in size, failed. It is a ghastly record. About 10 per cent of the national banks and 20 per cent of state banks closed their doors. In the current year 1930, the Comptroller of the Currency has testified before this Committee that from January 1 to February 21, 1930, 155 more banks failed, or at the rate of 1,140 a year. These failures have not only caused tremendous losses to the depositors and the stockholders, but they have virtually paralyzed business in whole sections of the country. The remaining banks have been afraid to make loans even well within their capacity, feeling that they must retain sufficient liquid assets to meet a run which might be caused at any time by the suspension of a neighboring institution.

Moreover, the vastly increased banking and financial needs resulting from so many consolidations and mergers rendered the resources of banks which had been large enough ten years ago inadequate to meet these new demands.

As a result of these two tendencies in industrial development, two distinct movements have become manifest in our banking structure, first the stupendous increase in the size and decrease in the number of the metropolitan banks through huge mergers and consolidations, and, second, the rapid development of group banking throughout the country.

Unlike manufacturers or retailers, bankers could not establish branches except to a very limited extent. Branch banking, except within city limits, is, generally speaking, prohibited by the national bank act and by the laws of most states. The ownership or stock control of one bank by another is likewise forbidden. Therefore, to accomplish the same results that industry had reached by means of consolidations and branches, group banking developed almost overnight, as an entirely new form of banking development.

GROUP BANKING *v.* CHAIN BANKING

As generally understood, "group banking" implies the ownership by a holding company managed by bankers of a controlling stock interest in a group of banks or trust companies. It is a banking system whereby a number of corporately independent financial institutions, retaining their own identity, capital, personnel, and management, are coordinated through majority stock control, by a supervising holding company, operated by the banking interests of the territory which it serves. The stock of this holding company is widely distributed among a large number of stockholders.

"Chain banking" as the expression is commonly used, refers to the ownership of stock control of a number of

banks, directly or indirectly, by one or more individuals who may be bankers, but are more often business men who have acquired or operate the banks as adjuncts of their business interests. Ultimate stock control is usually lodged in one, or at most, in a very few individuals.

GROUP BANKING *v.* BRANCH BANKING

We were compelled to carry out our plans by the method of "group banking" because as already intimated, the laws of New York State and the National Bank Act both prohibit branch banking beyond city limits. It is, therefore, somewhat academic for me to try to compare one system with the other, when only one was open to us. However, in view of the suggestion that the National Bank Act may be amended in such a way as to permit at least state-wide branch banking, I have given considerable thought to the question as to which form of operation would be preferable in our case.

Obviously certain advantages of branch banking can not be realized fully by group banking. For instance, more economies may be effected, both in operating costs and in overhead. Administration, also, would be more direct and simple. The corporate set-up is less complicated, the resources of the system more closely integrated, and authority more concentrated.

On the other hand, there appear to be certain advantages which group banking possesses over the branch system.

Ernest T. Clough in *Barrons* for April 14, 1930, in an article on "Group Banking Sweeps the Country," summarizes these advantages as follows:

Banking facilities broadened: In many ways, the group-banking movement offers advantages to American business, to individuals in the community, and to the depositors and stockholders of the numerous unit banks. Banking operations are thereby broadened, the ability to handle the credit requirements of large corporate enterprises in the various territories is im-

proved, sounder investment advice is being given, individuals are offered opportunities of trust department and safekeeping facilities never before available, and advantages in the financing of foreign trade and in the obtaining of letters of credit for travel abroad are given the community served such as they are not able to secure in any other way under the present system of banking. At the same time, the local banking personnel is handling the problems of each community, which means that local requirements are fully understood and given sympathetic consideration. Depositors continue to have a feeling of pride in the institution as one which reflects the financial strength of the community, and the ability to maintain this close kinship between the depositor and his bank is unquestionably one of the strongest factors of strength in group banking.

Group banking is a compromise between the British, continental, and Canadian systems of branch banking, and the traditional unit-bank system of the United States. Possibly it is only a transitional stage. But for the present, at least, the retention of local interest and contacts, through independent boards of directors and real local autonomy, seem very real advantages. Local pride and rivalry are stimulated. Cooperation rather than centralization is stressed. In the numerous meetings we have had of the officers and directors of the different banks, a splendid esprit de corps was developed, with much friendly emulation as to the relative merits, efficiency, and progress of their respective institutions. It is hard to conceive of such a spirit—at least under present conditions—in a convention of branch managers. However, we are open-minded on the subject, and I am frank to confess that our experience has been too short to justify forming any final judgment as to the respective ultimate advantages of group versus branch banking. Nevertheless, I can and do heartily indorse the statement made by Mr. Wakefield of the First Bank Stock Corporation in his testimony before this committee, in which he said:

The group system of banking is sound because it rests on these foundations: First, cooperation of resources; second, di-

versification of resources; third, ownership spread throughout the territory; fourth, creation and management by bankers.

ADVANTAGES COMMON TO GROUP AND BRANCH BANKING

Through its affiliations with the other Marine Midland banks, The Marine Trust Co. in February was able to become the successful bidder for an entire issue of \$50,000,000 of the United States Government certificates. This fact attracted widespread notice and much favorable newspaper comment. It was stated to be the first time that such a large government issue had been taken up by a bank outside of New York City. This is one illustration of the many ways in which bigger things can be done under the group or branch system.

The Orleans County Trust Co. is one of our smallest banks, being located at Albion, N. Y., in the midst of a farming community. Most of the farms are already mortgaged, and the farmers are having a hard time to make them pay. Through its affiliation with the Marine Midland group, this little trust company has been able to secure the services of an expert on farm loans, who is now studying the situation there and advising the farmers how they may so improve their methods or refinance their operations as to turn failure into prosperity and gradually liquidate their loans. This is an illustration of a very different way in which advantages may result from a co-ordinated banking system.

Another real gain from an organization viewpoint is the greatly enlarged opportunity afforded to every officer and employee in the whole group. Here we can learn much from the experience of Canadian bankers, where they are able to try a man out in a small branch and promote him or shift him around until he has broadened his experience and developed his abilities and become a seasoned, well-trained banker. The chance for advancement is multiplied many times. Good men are bound to

be discovered and given promotion in their own or some other bank. A messenger in one of the country banks may some day become president of The Marine Trust Co. or of the Marine Midland Corporation.

CONCLUSION

Industrial and economic progress in the past 20 years has improved the standards of living and contributed to the happiness and welfare of the greater bulk of the people. Most of this progress has resulted from developments in transportation and communication which have broken down barriers and prejudices and changed methods of transacting business both in manufacturing and distribution.

In this progress, up to the present time, banking organization has lagged behind. To-day, however, group banking is the logical means by which the two basic functions of a bank, the protection of its depositors' money, and the sound constructive extension of credit can be most effectively exercised.

Marine Midland Corporation, as an exponent of modern banking structure, definitely benefits the public, 350,000 depositors, and over 20,000 stockholders. These advantages may be summarized as follows:

Advantages To The Depositors

1. Greater protection for their deposits in a member bank through the availability of greater resources in money and experienced management as applied both to operations and the handling of the bank's investments.

2. Greater mobility of credit. (Example: The manufacturer in a small community who needs more credit than has been available to him through an isolated unit bank may now, through a group bank in his own home town, make arrangements for his requirements with greater facility.)

Group banking will benefit many communities by furnishing the assurance that credit is extended on the basis of sound business judgment rather than prejudice. (Example: Many times the president of a small bank, because of prejudice, will refuse to meet the legitimate needs of his customers or will often use the bank for his own personal ends.)

Certain small town banks with little paper to rediscount have been unable to take care of the legitimate matters of their individual borrowers. To such banks, members of Marine Midland, we are sending funds.

3. More complete financial service: The isolated country bank, while professing to have trust and investment departments, has been unable to afford competent officers along such lines. Now through any Marine Midland member bank there is available to the public such service through the part time of men who are experienced in their respective fields.

4. More efficient service: (Example: Through the extensive contacts of the Marine Midland group member banks are able to secure better and quicker credit information for their customers.)

In some instances readjustment of operating practice will improve the service at tellers windows and necessitate less waiting in line on the part of the public.

5. Financial advice: Manufacturers, jobbers, and merchants have a right to expect advice from their bank on many problems of a semibanking or business nature. If the officers in any particular Marine Midland bank can not from their own experience contribute constructive advice, such counsel is more directly available to the inquiring business man by virtue of the fact that the bank is a member of the group.

6. Development of communities and areas served by the group: The Marine Midland Corporation is not a bank and can profit only as the communities in the area which it serves themselves grow and prosper. With this

in mind a national advertising campaign pointing out the advantages of Marine Midland cities and New York State from a manufacturing and sales distribution standpoint is being run in national publications.

We are also preparing a marketing survey of New York State designed to point out the opportunities in New York State.

None of these things which in the last analysis should tend to build up these communities could be attempted or carried out by the average small or moderate size unit bank.

Advantages To The Stockholders

1. Safety of investment: The value of stock in an isolated unit bank is subject to depreciation, which might come from a business depression affecting that particular community or even from a single credit loss. An investment in stock, such as that of Marine Midland Corporation, owning as it does 17 banks, has the advantage of safety through diversification of risk.

A change in management necessitated, perhaps, through the death of the chief executive of a small country bank might be detrimental to the value of stock in such a single institution. On the other hand, under group banking continuity of good management in any single bank is more readily assured.

2. Opportunity for normal increase in value: Economies in operation and greater efficiency in management go hand in hand with group banking. Furthermore group banking furnishes opportunities for increased earnings through the ability to extend trust and investment facilities to a greater number of people.

3. Greater marketability: Stock in the Marine Midland Corporation is listed and affords the investor an opportunity to liquidate at any time if he needs to do so. Oftentimes the holder of stock in a small bank finds it almost impossible to dispose of his holdings without sacrifice.

ORGANIZATION AND FUNCTIONS OF THE FIRST BANK STOCK CORPORATION*

With the adoption of the Federal Reserve Act, banking in the United States was established upon a definite regional basis, within areas having common economic interests and bound together by established zones of trade and avenues of transportation.

The ninth Federal reserve district, comprising the States of Minnesota, Montana, North Dakota, and South Dakota, the upper peninsula of Michigan, and northwestern Wisconsin, is centralized in the Federal Reserve Bank of Minneapolis. St. Paul and Minneapolis are the largest cities within the district, the terminal headquarters of the railroads traversing the territory, the seats of many of the larger industries and business serving the district as a whole, and the clearance centers of a major volume of commercial transactions originating within the territory.

For generations the First National Banks of Minneapolis and St. Paul have been territorial banks of approximately the same region now included within the reserve district. They are the largest banks in the district, and have always been closely identified with the major fiscal activities of the Northwest, serving as the depositories of the territorial industries and also as the rediscount correspondents and reserve depositories of the majority of the banks of the smaller cities and towns.

ORGANIZATION

In August, 1929, the stockholders of these two banks in association with a number of the other leading banks of the ninth district decided to unite the strength of their institutions within a group organization, which it was believed could better serve this territory by creating a

* Statement submitted to the Congressional Committee by First Bank Stock Corporation. *Hearings*, Op. cit. v. 1. pt. 8. p. 901-5.

medium through which the banks of the Northwest could associate for common strength, improved service, and facility.

The First Bank Stock Corporation of Minneapolis and St. Paul was organized as a central holding company, affording opportunity to the key banks of the district to affiliate through common ownership, bringing into a partnership relation the territorial banks of the metropolitan cities, the commercial banks of the industrial centers, and the agricultural banks of the rural areas.

PRESENT SCOPE

Since its organization the corporation has grouped together ninety-three of the leading banks, trust companies, and allied financial houses, including many of the oldest and most substantial institutions of the territory with long records of sound management, substantial earnings, and notable service to their communities. By pooling the interests of these banks greater diversification of resources and risk is accomplished; each affiliate is enabled to meet more adequately the seasonal needs of its trade area, while periodical surpluses of funds accumulated beyond local credit needs can be constantly and profitably employed supporting the general trade of the territory.

Sixty-seven cities now are served by affiliates of the corporation, as follows:

State	Cities	Units
Minnesota	24	44
Montana	13	15
North Dakota	17	17
South Dakota	10	12
Michigan	3	3
Territorial affiliates		2

OWNERSHIP

The First Bank Stock Corporation is territorially owned. Its authorized capitalization is 10,000,000 shares at \$25 par, of which approximately 3,030,000 shares are outstanding, held by some 16,000 individual stockholders resident almost exclusively within the district. Thus the territory as a whole participates in the distribution of the earnings of the corporation.

INVESTMENT AND FINANCING

Supplementing the usual banking functions of the affiliated members of the group, two major subsidiaries are maintained. The First Securities Corporation provides a general investment and securities service operating through the banks of the group and extending its facilities to the investing public throughout the Northwest.

The First Banccredit Corporation is an agency for providing credit facilities in specialized financing fields, particular in the building and construction lines, financing installation sales through manufacturers and dealers.

OPERATIONS

Operations of the First Bank Stock Corporation contemplate the retention in the hands of local boards of directors and resident officers of the management of the banking units. The central organization affords a supplementary, cooperative service functioning through several divisions and designed to maintain highly competent management in the units. Periodical examinations, central investment of secondary reserves, adoption of proven standards, exchange of information and the bringing to bear of trained judgments throughout the entire system of banks should insure their operation at a maximum constant of efficiency, providing a degree of security for depositors equal to that of the greatest banks of the nation.

MANAGEMENT

Management of the First Bank Stock Corporation is vested in a board of directors representative of the most substantial interests of the Northwest, an executive committee of commercial, agricultural, and investment bankers of many years experience in the territory served and a group of operating officers recruited from the executive staffs of the First National Banks of St. Paul and Minneapolis.

RESPONSIBILITY

The management of the First Bank Stock Corporation is conscious of the great degree of public responsibility which the nature of this organization entails. Banking is a semipublic function and banks are charged not only with the safeguarding of the accumulated capital of the areas they serve but with the maintenance of a stable financial structure through careful direction of the uses to which this capital is put. Strong banks are essential to prosperity and sound development and it is our purpose to afford the entire territory a banking service meriting the greatest degree of confidence.

It is also our intention that the development of this system shall be conducted frankly and openly and that the residents of the Northwest shall at all times be provided with comprehensive information concerning its activities. With that policy in view this booklet is published.

ADVANTAGES

Group banking of this type has certain inherent elements of increased strength over single banking institutions. Banking is a business of careful investment of the funds entrusted by depositors, and the simple pooling of the investments of a number of banks entails a wider diversification of risk. The group accomplishes a further diversification through the greater variety and type of area and industry served by its members.

Supported by this greater diversification the unit is in a position to meet more fully peak credit loads and seasonal needs of its community. Such seasonal needs of different localities and industries vary widely, often to a point of complete absorption of local credit resources. The group organization provides means of mobilizing the credit supply of the territory to meet these conditions. At the periods of over-supply of available money in units of the group this capital may be marshaled for financing the general business of the territory.

The central treasury also provides a means for expanding the capital structure of its affiliates if the growth of the local communities requires the expansion of loaning power to meet rapid development of trade and industry.

Maintenance of supplementary facilities in territorial divisions of the group will enable the affiliated banks to provide types of services formerly offered by only the largest banks.

Management of the banks in the group remains in the hands of their corporate organization, the credit authority being exercised by local officers and directors. Supervision by the holding company is directed at maintaining efficient management, the conducting of careful examinations, the requirement of periodical reports, the exchange of information, and the adoption of efficient standards and methods.

BUILDING THE COMMUNITIES SERVED

Group banking contemplates the development to the maximum of the service of the component units to the communities in which they are situated. Only through the prosperity and success of its affiliates can the group expect to develop and prosper, and its continued prosperity rests with the development of the communities served.

In recent years there has been a growing tendency among the smaller and more isolated banks to keep their

assets in such a liquid condition as to be able to meet an emergency, mass withdrawal at any moment. This has resulted in the creation of overly large liquid reserves, such as cash on hand, cash on deposit with other banks, investments in highly liquid assets such as government and other low-return bonds and notes. The existence of a large mobile reserve within the holding company will release back to the use of the local communities a large volume of capital now withdrawn from support of general business.

The Northwest is a new country, rich in resources whose exploitation for the benefit of the people living within the territory, will require large credits from outside its borders. The group is a medium through which capital can be drawn into the Northwest and diffused throughout the entire region.

BRANCH BANK POLICIES OF THE CLEVELAND TRUST COMPANY⁹

Two principles governed its policy in opening branches—never to invade the territory of a smaller bank and not to establish a branch if an existing institution could be acquired. In fact, the bank did not establish a *de novo* branch until 1907. As a result of a policy of forbearance toward the smaller banks, these institutions were kindly disposed toward the Cleveland Trust Co., and we were oftentimes given the opportunity of acquiring them later on.

Without fear of contradiction, I can state that our bank has never been accused but in one instance of having invaded the territory of a smaller bank, and in that particular case we placed our branch in a location which we did not consider an invasion of their territory. Since

⁹ From the statement of E. B. Greene, chairman, executive committee, Cleveland Trust Co., Cleveland, Ohio. *Hearings*. Op. cit. v. 2. pt. 13. p. 1692-4.

our principal competitors entered the branch-banking business this has not held true. So much for the policy which has governed concerning the establishment of branches.

Regarding the handling of the routine of branches, our board of directors has been increased from time to time to make room for directors formerly connected with banks which we have acquired. In this way they have not been eliminated from the banking business, but have exercised their authority in a broader field.

We might consider the making of loans under subdivisions of discounts, collateral, and real estate. Every manager of our fifty-seven branches has authority to grant discount loans in varying amounts, depending entirely upon the manager's ability and experience, the authority ranging from \$250 to \$5,000.

As regards collateral loans, every branch office is furnished with an approved list of collateral loan rates and lines enabling it to take care of customers promptly in case they can offer any of the securities included in these lists. These collateral loaning rates and lines are established by a committee of board, officers and managers who revise the rates from time to time and reestablish them every six months.

Managers of all branches take real estate loan applications, which are forwarded at once to the Appraisal Bureau at the main office. They are then brought up at a meeting of the branch managers at which the manager who took the application may present his comments and reasons for desiring to make the loan. If approved at this managers' meeting, they are forwarded for final approval of the board.

I might add that for years the Cleveland Trust Co. has granted more loans than any institution in northern Ohio. I think I could, without fear of contradiction, say that that covers the State of Ohio because, of course, Cleveland is the largest city by far in Ohio.

It is our firm belief that taking care of the application of the small borrower is our greatest aid in building up our branches. This statement can be made regarding the other classes of loans besides real estate.

In regard to the supervision of branches, this important duty is placed in the hands of a department of branches under the control of a vice-president. General management figures are forwarded daily from each branch to this department and these figures are assembled into a consolidated statement by ten o'clock the following morning. Reports on all subjects are rendered the main office. A close system of branch inspection, entirely separate from audit, is also maintained by the branch management department. It is our purpose to give our managers every opportunity of handling the business of branches with the same facility and the same knowledge as if they were serving at the main office. In fact our branch managers have no more trouble consulting the various officers and department heads of the bank than the junior officers themselves in our main office which occupies four adjoining buildings in the downtown financial center. Our system not only gives them very desirable experience and knowledge, but it also permits them to speak on behalf of the lines of credit and loans which originate in their territory.

I am bringing that up to show the personal contact of the managers with the business. It is sometimes thought branch banking means impersonal service for the borrower. That is not true, at least in our case, and it can be obviated in every case by giving the men who request loans an opportunity to present their views and their ideas respecting the loans requested.

In order to familiarize our branch managers with the work of the banks, certain ones of them are always present at the meetings of our committees. I mean the main meetings at which the executive officers of the bank handle the business of the bank.

As to the audit, the audit department maintains special auditors at large branches, and all other branches are visited at frequent intervals by traveling auditors. Copies of all branch loan records are maintained by this department and all movements of cash or collateral are recorded here.

The department is operated entirely free and independently from all other departments, and is responsible solely and directly to the board.

The early criticism of branch banks was that it was dangerous as it permitted of the withdrawing of funds at too many paying windows. With the growth of banks to their present size, this criticism loses all its force as the payment of money over the teller's window can not reach proportions to embarrass big city banks. Their withdrawals through clearance are of much greater importance and, of course, the Federal Reserve System affords security which has done away with the fear of runs.

A criticism harder to refute is that branch banks established in small communities are glad to receive the deposits but are unable or unwilling to take care of the loans of those particular communities. This criticism, in our opinion, is unfounded. Such a policy would be extremely detrimental to the growth of the branches of such a bank. Self-interest prevents any well-managed bank adopting such a policy. The following figures representing the deposits and loans of the branches of the Cleveland Trust Co. most remote from the main office, prove conclusively that the Cleveland Trust Co. is placing at the disposal of its remotest branches loanable funds way beyond their deposits.

MR. SEIBERLING. Will you read those figures? They are short, are they not?

MR. GREENE. Yes. I was going to comment on them, but I will read the figures in full. This is as of May 22, just a few days ago.

The total deposits of the Willoughby branch were \$1,955,259.77; the total loans, \$2,890,305.90; the borrowing from the main office was \$938,976.70, showing that they were loaning approximately 50 per cent more than the total deposits.

I made no attempt to select branches which would make any particular showing. I simply telegraphed Sunday afternoon to bring me those figures and these are the figures supplied. I said, "Give me the figures of the three branches farthest away, as to deposits and loans."

The Lorain branch, which is thirty miles from the center of Cleveland, had total deposits of \$3,510,329.67; total loans of \$5,465,617.54; borrowing from main office \$1,973,498.52, showing that they were loaning approximately 65 per cent more than total deposits.

The branch at Painesville had total deposits of \$3,224,344.33 total loans of \$3,965,243.45; borrowing from main office, \$762,041.34, showing loans of approximately 25 per cent more than total deposits.

It is our experience that when a branch bank fails to grant loans and credit which the depositor is justified in requesting, that it builds up the business of its competitor and in case it is the only bank, it brings about the organization of a new institution. No well-managed branch bank neglects the reasonable needs of the locality in which its branches are located.

I should like to lay special emphasis on our experience in that regard. There seems to be in the minds of those who are opposed to branch banking the idea that a branch is put in—especially in a small locality—with the idea of accepting and then withdrawing deposits and then telling the people their loans are not up to standard. If you establish a branch in a locality, you are expecting to get their business and good will, and if you start a policy of that kind, it simply means that you will not get their good will. Banks are founded on

good will and unless their service corresponds to the desires and needs of the locality in which they are established, they do not get the good will, and without the good will you have very little in the banking business.

POLICIES OF THE NORTHWEST BANCORPORATION IN ACQUIRING CONTROL OF BANKS ¹⁰

MR. DECKER:

State fully the method of acquiring a bank, whether by cash, purchase of stock, or by exchange of stock, and the method of negotiation.

That can be briefly answered, although I think I have covered it. In nearly every instance banks are acquired by an exchange of stock, although when the corporation was first organized we offered them part cash if they preferred it.

In each acquisition, consideration is given to the territory served by the bank and the need and provision for a more stabilized local banking condition and a broader, more uniform and complete service as well as continuous banking facilities which will not be affected by temporary and local depressions.

Negotiations are generally initiated by those desiring to affiliate, but in some instances the corporation, through its representatives, invites affiliation.

Stock of the corporation is exchanged for stock of the bank, except in cases where it is necessary to recapitalize the bank, and in those instances the old capital structure is wiped out by losses or reserves set up for possible losses, and it is then necessary for the corporation to provide new capital. All exchanges are made on as uniform a basis as is possible, taking into con-

¹⁰ From the statement of E. W. Decker, chairman, executive committee, Northwest Bancorporation. *Hearings*, Op. cit. v. 1. pt. 8. p. 807-8.

sideration the capital, surplus and undivided profits, resources in use as capital and net accruals; the foregoing constituting the bank's total invested capital. The total invested capital, the volume of deposits, and the average earnings over a 5-year period to a great extent determine the ratio of exchange. Of course, management and future prospects for growth and strategic location are also taken into consideration.

When an agreement has been reached on the exchange ratio, the bank is examined by our own examiners who make the examination without having in mind the terms of the contract and ultimate consummation of the deal. The examination is unbiased with the end in view of obtaining all information possible regarding the prospective affiliate. Before affiliation is finally brought about, the undesirable assets are eliminated and the bank comes into the group on a clean basis and thereafter is maintained in a sound and healthy condition.

Now, the basis of exchange of stock, where stock was exchanged, was, of course, a matter of mutual agreement. We took into consideration profits, book value, earnings, prospects, and everything, and agreed upon what would be a fair exchange for their giving up their stock in the local bank and taking for it stock in the holding company, and we retained the stock in the local bank.

MR. GOODWIN. Were the stockholders practically unanimous in the transfer?

MR. DECKER. Yes. About 97 per cent of the stock has been exchanged, so I think that answers that. Of course, a part of the remaining 3 per cent is accounted for by the directors' qualifying shares. So there is very little left. There is no trouble in exchanging stock. They were delighted to get a stock that had a market and that was based on diversified resources in place of a local bank subject to local business vicissitudes and changing management, the perpetuity of which was not assured.

AGRICULTURE NEEDS BRANCH BANKING¹¹

Every banker is acquainted with the appalling mortality record of the small unit banks located in purely agricultural territory. No doubt that lack of proper management and dishonesty accounts for a small percentage of such failures, but in the main the wholesale, colossal number of small bank failures can properly be chargeable to the system itself.

Having limited capital, little or no credit with correspondent banks, with no affiliated bank to lean upon and with no diversity of loans—when there occurs a shortage or failure of crops, or when farm products are extremely low in price, it is inevitable that such banks under such conditions must close their doors. A larger and stronger unit bank would not be profitable at such location. Therefore, the most logical way to provide a safe depository for such community is through the medium of the branch bank.

To illustrate: I know of a system of branch banks which has been operating in a number of small agricultural towns for the past thirty-seven years. During that time quite a number of small unit banks in that section, both state and national, have failed. In the majority of cases, had these banks been branches of that system they would be open today.

THERE CAME A SLUMP

As an example, there was one bank with \$15,000 paid in capital. Its cashier was active and built up its deposits to about \$125,000. For quite a while there was little or no local demand, hence little profit; but eventually demand came and the cashier, eager to make profits as well as to extend the bank's business to a wider circle

¹¹ From an address by Clyde Hendrix, president, Tennessee Valley Bank, Decatur, Ala., before the annual convention of the American Bankers Association, 1929. Reprinted in the *American Bankers Association Journal*. p. 363+. October, 1929.

of customers, loaned rather freely until the bank's funds were pretty well invested.

Then, there came a slump in deposits. Collections could not be made, since all loans ran until fall. Their correspondent banks loaned them liberally, but deposits continued to decrease, until finally the bank had to close its doors. Not that the bank was insolvent, nor that their paper was frozen in the sense this term is generally used, because their depositors as well as their borrowers were all farmers—and there were not enough farmers' deposits in the community to carry the farmers' loans. At the same time, there were branch banks operating in nearby towns, only a few miles distant, which continued to function, taking care of all desirable business that was offered.

There are many instances where small banks have had to close because of a run on the bank resulting from the suspension of a nearby bank, the defalcations of a bank officer or employee or some unfavorable rumor in the community. A branch bank, under such circumstances can readily and quickly mobilize a sufficient amount of funds with which to pay every local depositor, supplying same from its own banks, which is impossible for any but a branch banking system to do.

FUNDS FLOW BACK

The unit bank is dependent on local deposits for its lending funds; it is dependent, likewise, on local demand for loans to employ its funds. When crops are harvested collections are made and deposits increase, but there is little demand for money. When spring comes deposits begin to decline while at the same time loans begin to increase at about the same ratio. Since practically all depositors are either farmers or are dependent on agriculture, the local bank finds its deposits down just at a time when loans are most sought and needed with the result that it cannot take care of the

legitimate needs of its customers. Where a branch bank is serving such a community the funds accumulating in the fall are put to use at other branches where there is demand; and when deposits decline and loans are in demand these funds flow back to the branch, and during crop-making season are supplemented, if need be, in order that all worthy applicants for loans may be supplied.

DISTRIBUTION OF LOANS

It is essential that a bank have its loans, and likewise its deposits, diversified. This can best be accomplished by the branch bank. Even where all branches of the system are located in an agricultural section, there are sufficient varieties and differences in soil, labor, farming methods, etc., as to give the bank a fairly wide range or classification of its business. At one point there will be a number of large land owners who accumulate funds and do not borrow; at another there will be a number of small land-owner farmers who borrow in small amounts; and still another will have plantation owners who use considerable credit.

However, the best distribution of loans is brought about by the branch banking system operating in towns of varied size and industry. There should be, as there usually is, a sufficient number of banking offices located in the larger towns where there are industries, railroad shops, manufacturing plants and business houses, as to enable the system to accumulate deposits with which to supplement the local funds of the smaller branches during the crop making season, and to employ to advantage the surplus funds coming in from these branches during the winter months.

In further support of the statements made favorable to limited branch banking, I am quoting some authorities who are well qualified to speak on this subject and whose opinions should carry much weight: As early as 1892

Charles F. Dunbar, Professor of Banking at Harvard, wrote an article published in the *Quarterly Journal of Economics* in which he declared that many of the banks being established in agricultural sections of the West were below the minimum of safety and stated, "with their trifling resources, it is impossible that they should command for their service such experience and capacity as their operations, although on a small scale, really required in the interest of the community." He suggested the branch bank as a solution to this problem at that time.

Some years later, Comptroller of the Currency, Charles G. Dawes, in his annual report for 1898 has this to say:

The Comptroller recommends, in accordance with the former recommendations of his predecessor, that domestic branch banking should be legalized in communities of less than two thousand inhabitants, many of which are now unable to support independent banks. This would afford some smaller communities banking privileges which are now without them but would not materially interfere with the scope of the work now so well performed by existing banks of the smaller communities.

In an address before the Alabama Bankers Association two years ago, Edmund Platt, Vice-Governor of the Federal Reserve Board, who has spent many years of research and study of this subject, strongly recommended limited branch banking for the smaller communities. In speaking of the great number of bank failures in agricultural sections, he said:

The small towns would have been saved much money and much unnecessary distress if they had been given banking accommodations by means of branches of larger banks instead of little local independent banks. A considerable part of the depression in the great agricultural states today and for the past several years has been due to the loss or locking up of the money of the farmers in the numerous small bank failures.

Later on, in the same address, Mr. Platt makes this statement:

In my opinion, instead of stopping or even discouraging the establishment of country bank branches the practice should be encouraged through consolidations of present small banks, as a sound, sensible way of extending better and safe banking facilities to small places.

IN ONE NARROW TERRITORY

Quoting Mr. Platt further: "Branch banking for country banks would do for country banks to some extent at least what big city banks are able to do without branches, namely, extend their risks over a wider territory with greater diversification." Still further, after pointing out the advantages enjoyed by the large unit banks in the East, Mr. Platt continues:

Conditions are very different in the West and in much of the South, where most of the smaller banks cannot from their own resources take care of peak local demands, and are practically forced to loan all their money in one narrow territory and frequently to one class of industry or even on one crop. Under such conditions independent unit banking is necessarily dangerous, and no amount of supervision or burdensome legislative restrictions can make it as safe as it should be. The only remedy, in my opinion, is the remedy which has been successful in every other commercial country—branch banking.

After discussing the attitude of the bankers themselves regarding branch banking, Mr. Platt goes on to say:

Limited branch banking would be far better for bankers, small and large, than many of the legal restrictions proposed, and country bankers in their own interest should seriously study the subject of limited country branch banking as a real remedy for bank failures.

ADVANTAGES OF GROUP BANKING SUMMARIZED¹²

Two principal considerations have entered into our explanations of the purposes, activities and benefits of

¹² From an article by J. E. Neville, of the Northwest Bancorporation, in *The Commercial and Financial Chronicle*. p. 1177-8. February 22, 1930.

our group organization; benefit to the community and the people therein and benefit to the bank joining the group. We have pointed out these major benefits to the patrons of the banks and the communities.

Communities will be insured greater financial stability and will be provided with broader and better service than has been possible by independent unit banks.

Regardless of temporary depressions affecting one locality or industry, every bank will be able to render uniform and continuous service.

Adequate resources will be available for financing the needs of business enterprises in communities served by Bancorporation banks.

Perpetual and continuous management is assured for men and women who wish to provide trust company management for their estates.

We have emphasized the more favorable position of the borrower in the country town. In localities where other unit banks have failed or were known to be weak, bankers whose institutions remained solvent have been cautious about extending their loan total because of possibility of adverse effect on them of troubles of other banks.

And in further pointing out the advantages we have called attention to opportunities for:

INCREASED GENERAL BANKING FACILITIES

These facilities include checking, savings, safe deposit boxes, loans, investment, travel funds, letters of credit, foreign exchange, safe keeping.

MANAGEMENT OF ESTATES AND TRUSTS

Through the Bancorporation and its affiliated banks and trust companies, each member bank has available nearly half a century of trust company experience, with improved and complete facilities for the management of estates and trusts.

INVESTMENT SECURITIES

Diversified bonds and other securities for sound and profitable investment, together with investment counsel from leading banking authorities in the Northwest. Private or leased wires are available which connect with the principal markets of the world, enabling individual banks to buy or sell securities without delay upon request of clients.

ELASTICITY OF CREDIT

A greater elasticity of credit is assured, making each city served by banks affiliated with the Northwest Bancorporation independent of conditions affecting one locality or one industry.

FINANCING INDUSTRY

With the combined buying power of the affiliated banks each organization will be able to underwrite and distribute entire issues of bonds and other securities for the development of public utilities and other local business enterprises, and for the city, state or country needs. Affiliated banks will also be in a position to buy securities on a more profitable basis, by reason of the increased buying power of the entire group.

BANKING COUNSEL

Under local management, each bank is a vital part of its community, and offers to its customers the financial counsel of its officers and directors, backed up by the experience represented in the Northwest Bancorporation.

We have shown these major advantages to the bank becoming a member of the group.

PRESTIGE IN PUBLIC MIND FROM CONNECTION WITH STRONG GROUP

Stabilizing and strengthening the general situation. We have seen hoarded money brought in for deposit in localities where people had long been timid.

Ability to take care of larger financial requirements of the community than could otherwise be met.

Enlarged earnings possibilities—every bank able, through Bancorporation channels, to buy securities on more profitable basis and also attract trust business.

Fidelity bonds: Every person employed in the banks that comprise the Northwest Bancorporation group is under bond of \$250,000. This large individual coverage has been obtained at less cost than the inadequate coverage formerly carried.

Buying of equipment: Assistance to smaller banks in procuring equipment not obtainable in their own communities and advantages of greater uniformity in stationery.

A definite advertising plan with expert service.

An organized new business department working to bring new accounts to affiliated banks.

Maintenance of strong financial position through central examining board, placing at the disposal of each bank technical advice of the central organization staff.

Conference of group members, allowing exchange of information which will help each bank with problems of management, operation and in new business efforts.

Research department: Through Northwest Bancorporation every affiliated bank finds available the help of the analysis and research departments, affording facilities that a small bank could not provide for itself.

As there are 113 members of the Board of Directors of Northwest Bancorporation and more than 700 directors of the various affiliated institutions, and as Northwest Bancorporation now has nearly 12,000 stockholders, we have pointed out that from the standpoint of the stockholders:

They are partners in a business owned principally by people connected with and largely interested in the success of some unit of that business.

Against a condition of difficulty of sale of bank stock holdings at fair price and the necessity for finding a purchaser there is now a ready market for a more marketable stock.

Northwest Bancorporation stock is listed on the Chicago Stock Exchange and is traded on the Minneapolis-St. Paul Stock Exchange, where it has an active market.

There is a greater element of security through stock ownership of a holding corporation owning banks in communities diversified as to industry.

Greater opportunity for enhancement in value is present in Northwest Bancorporation stock than would ordinarily be the case with stock of the average unit bank.

CANADIAN BANKERS ANSWER: HOW DOES BRANCH BANKING SERVE BUSINESS?¹³

Branch banking, as developed in Canada, is a system adapted to the needs of a pioneer nation. For branch banking can do things, not only on a bigger scale than can unit banks, but also on a smaller. A branch can be operated as little as \$5,000 a year overhead.

Two men and a safe can, and often do, constitute a branch of a Canadian bank. Perhaps their headquarters may be in a shack on a sledge pulled alongside an advancing railroad and destined to be stationed in a town for which the site has not yet been chosen. And yet that shack has behind it resources running into the hundreds of millions, just as has its parent institution on St. James Street, Montreal—the Wall Street of Canada.

Before steel reached Fort Churchill on Hudson Bay in the spring of this year, making it the northernmost point in America on a railroad, a branch of the Bank of Montreal had been established there, though some difficulty

¹³ An article by John H. Millar in *The Magazine of Business*, p. 640-1+. June, 1929.

was encountered due to the fact that governmental authorities were at first reluctant to have the problem of provisioning the town increased by adding two to its population.

Big elevators and wharves are shortly to be erected at the new port. If, to assist in their construction, the Bank of Montreal sees fit to extend some hundreds of thousands of dollars of credit to individuals or companies responsible for the work, consideration need be given only to whether borrowers and projects are worthy of accommodations requested. Whether or not deposits in the Churchill branch are sufficient to cover the loan, or even 1 per cent of it, makes no difference.

In the development of a new country, many big projects must be financed. The building of the Canadian Pacific railway across the continent—an achievement which made possible the development of the Dominion of Canada as it is today—was accomplished largely because of the ability of the Bank of Montreal to make large advances, and its willingness to take risks in a cause where so much was at stake.

Even yet, Canada, with its immensity of area and scattered population, has relatively small accumulated capital, excepting in a few older centers. Were it not for the Dominion-wide branch banking system this capital could not be made nearly so potent in the development of the nation's resources as it has been.

As Sir Frederick Williams-Taylor points out, it has "unusual fluidity." It is made to serve the legitimate needs of every industry throughout the country, irrespective of locality. The evident risks of banking in one-industry communities are offset by the diversity of interests of the whole nation.

While Canada's capital is always flowing to central points, there is at the same time a constant return flow to all parts of the Dominion, as seasons and conditions demand. The amount of money, for example, that goes into

the prairie provinces in the fall to be loaned to the farmers' Wheat Pool and otherwise employed in helping move crops to market is far in excess of deposits in branch banks there. When crops are moved, the same money comes back to industrial centers to help finance increased activity that added rural buying power brings. The flow is smooth and easy and natural. Capital does not become congested in some centers, while other parts of the country are under-supplied, as has often happened in the United States, especially before the establishing of the Federal Reserve System.

"Of course there are two sides to this question of branch banking," admits C. E. Neill, general manager of The Royal Bank of Canada, which, with 888 branches and \$909,000,000 total assets, is the largest of the ten systems in the Dominion. "We may take deposits from a fishing village in Nova Scotia and lend them to a manufacturing industry in another community. It has been claimed that it would be better for that village if the money were put into a fish-drying plant or some other local enterprise, as might possibly be done if the bank were a home-owned one. But local enthusiasm sometimes leads to the initiation of unfortunate projects, which might have been avoided had they been subject to unbiased outside judgment. In actual practice in Canada, bank credit goes to the people who can make the best use of it, no matter whether they live in city, village, or country."

And when it comes to the extension of foreign trade, branch banking has obvious advantages, adds Mr. Neill, whose bank has 107—or one-eighth—of all its branches abroad, mainly in the West Indies and South America. Few new problems are encountered, since methods, system, and routine of foreign branches are essentially the same as of those at home. Perhaps this easy adaptability of its banking system to the needs of world commerce accounts in part for the fact that Canada, though relatively small in population, already ranks fifth of all

nations of the world in foreign trade, with four times as much per capita as has the United States.

Those who picture branch banking as an octopus reaching out to strangle all sorts of little enterprises in a multitude of outlying communities neglect entirely to take into consideration two related factors, the first of which is competition, and the second, lacking a better name, might be termed the human element.

Banking in Canada resembles automobile manufacturing in the United States in that, as organizations in the field have become fewer in number and bigger in size, competition has become even keener. At one time Canada had as many as 36 different branch banking systems, as well as a few unit banks. Now the number has been reduced by mergers to 10 systems, with 4,142 branches. Three of these, The Royal Bank of Canada, the Bank of Montreal, and the Canadian Bank of Commerce, have 2,366 or 57 per cent of all branches.

In the United States there is one bank per 5,000 population. In Canada the ratio is one banking office for each 2,300 people. At practically all points where an independent bank could conceivably exist, and at many points where one could not, branches of two or more of the nation-wide systems are to be found. Communities relying on a single bank are not nearly so numerous proportionally as in the United States. Almost every branch has a competitor only a few doors away.

Branch managers go after business energetically. If necessary they use gasoline which the bank itself is usually glad to supply. While I do not intend to convey the impression that bank managers go out canvassing for loans to be made, for that is hardly necessary even if it were desirable, nevertheless it remains true that when a bank secures a depositor it obligates itself to give due consideration to the borrowing needs of that customer. If it fails to do so, the account goes elsewhere shortly.

THE FIRST CANADIAN SUBSIDIARY OF ANY
BRITISH BANK

A manager knows that, if he is to win recognition and promotion, he must make his branch show results, either by lending money to advantage or accumulating it for such lending elsewhere. He wants to see his branch make profits, and profits come mainly from sound loans. Often he will fight to secure approval of a loan more strenuously than will the borrower himself.

Competition between banks in Canada is so keen that it is difficult to see how any deserving borrower, even though small, can long remain unaccommodated. It is one of the canons of British branch banking, points out H. P. Sheldon of Barclays, which, with around 2,000 branches and close to two billion resources, is third in size of Great Britain's "big five" banking systems, that "a number of small advances are better than one big one." Mr. Sheldon, it is interesting to note, is now in Montreal preparing to open there the first Canadian subsidiary of any British bank. Evidently the English intend to see to it that banking in Canada remains competitive.

BANKING IN CANADA IS A PROFESSION
—AN ADVANTAGE OF THE SYSTEM

As far as the human element is concerned, local managers have more freedom and are invested with more authority than critics of branch banking usually admit.

A story is told of a young man who went to a prairie town to take charge of a new branch for the Bank of Montreal. Within a few months he had \$100,000 loans outstanding. In a few months more he had lent another \$100,000. It seemed to headquarters that an investigation was needed. It was made.

There was nothing wrong. Instead, the loans were found to be quite desirable. What happened was that the manager had been unusually adept at getting widely

acquainted in the community in a short time. Among other things, he had personally entered a local automobile race in a dilapidated Ford and managed to come in about fifteen minutes after all other contestants had crossed the line. But it made him known and talked about. Before long he was so popular and well-known that the cream of the local banking business was coming to him. Which goes to prove that no system, branch or otherwise, can take the personal element out of country banking.

Banking in Canada is a profession. One of the main advantages of the Canadian system—the main one, some of its leaders assert—is that it makes bankers. The importance of this, it will be recalled, was emphasized recently by the comptroller of the currency of the United States, who, in an Ohio speech, remarked that one trouble in America is that there are more banks than bankers.

Canadian bankers start early, usually between the ages of sixteen and eighteen. Leaders are invariably men from the ranks. The late Sir Vincent Meredith, chairman of the Bank of Montreal, entered its service at the age of sixteen and continued there for sixty-two years until his death in January of this year. His executive successor, Sir Frederick Williams-Taylor, has more than fifty-nine years of service to his credit. C. E. Neill of the Royal Bank, still a comparatively young man, completed his fortieth year May 9.

As young bankers acquire experience and riper judgment, they rise step by step. In order that their experience may be all the wider, they are transferred from one part of the country to another, until, so some say, bankers rank as the best-traveled citizens of the Dominion. "It is a wonderful thing," remarked Mr. Neill, "when you want to open a branch in Buenos Aires or some other distant point, to know that you have 9,000 trained men to pick from. The most important thing about any business is the men in it."

REGARD FOR INTEGRITY IS INGRAINED
INTO THE CANADIAN SYSTEM

As a young Canadian banker's experience increases, the amount of responsibility delegated to him becomes greater. At first he may be limited to making loans of \$500 without approval from higher up. Later his limit may be raised to \$1,000, \$2,000, perhaps \$5,000. There are few hard and fast rules. Consideration is given, in delegating authority, both to the man and to the community—in other words, to all factors of the human element.

Even where local loans are of such a size that approval must be secured, there is comparatively little red tape. The process is often simpler and quicker than calling a meeting of a discount committee. It is far from necessary to refer everything to Montreal. Superintendents conveniently located in important cities of various provinces are empowered to approve loans often as high as \$25,000. There are other regional officers who can go up to \$50,000 on their own responsibility. One bank has at least one representative whose discretionary powers run to \$100,000, when his action is approved by certain directors who happen to live in the city where he is stationed.

Securing approval is not a matter of set formalities. It can be done in a hurry if necessary. The bigger systems have their private telegraph lines. Telephones are used generously, it being a matter of routine for Montreal to be in communication with Halifax, Toronto, Winnipeg, Calgary, and sometimes even Vancouver or London, England. Common sense is applied. That an officer may be empowered to approve loans up to \$25,000 does not mean that he cannot consult superiors about one of \$5,000 if he so desires.

In this connection it is interesting to note that, according to Canadian law, no officer or employee of a bank can secure a personal loan of more than \$1,000 without the approval of the board of directors of the whole sys-

tem, nor more than \$10,000 in any event. Banking in Canada, as has been remarked, is a profession. It cannot be made the means of financing profitable side-line ventures into local enterprises concerning which inside information is gained through the bank.

A high regard for integrity, both of banker and borrower, is ingrained into the Canadian system. "Those hardheaded Scots who played such an important part in the promotion of the first Canadian banks," says Sir Frederick Williams-Taylor, "were men of a country where the traditions of banking provided that money should be lent not upon securities only but also upon character. And so today, if there be confidence in the business ability and undoubted integrity of the applicant, Canadian banks, in common with their Scotch prototypes, stand ready to make reasonable advances.

BRANCH BANKING'S CONTRIBUTION TO CANADIAN PROSPERITY

Canada is today enjoying high prosperity. Industries are active; mining is booming as never before; nor is agriculture lagging as far behind as in the United States. To this happy state branch banking has been a contributing cause.

Though Canadian farmers have had their troubles, they have been spared some of the difficulties that Americans have had to face. They were not victims of bank disasters, as were so many farmers in the United States, where 16 per cent of all banks, and in some agricultural states nearly 50 per cent have failed since the war. Obviously a farmer who loses his working capital in a failure, or is pressed unduly for payment by a weak and needy bank, has a harder time than has he whose savings are intact and whose loans are held by strong institutions which, because of the wide territory they cover and the great diversity of interests they serve, are easily able to weather a few years' hard times in any one locality. In

plenty of communities Canadian systems took losses big enough to wreck local banks but, instead of forcing each such community to go through the slow and painful process of making up its loss locally, they provided immediate "farm relief" by paying losses out of profits earned in industrial communities elsewhere.

CHAIN BANKS WON'T WEAR HIGH HATS¹⁴

The same sort of criticism and improvement which they must apply to themselves, the personnel of the chain will apply to applicants for loans. At some fairly early date after the bank enters a chain, a new assay will be taken of the commercial concerns which borrow from it. Assays will be repeated at frequent intervals under chain banking.

Social bases for loans—if any—will vanish or be less dependable. Where the business man has his credit base well-established, he will probably find it easier than ever before to obtain loans from the chain, for the tendency of chains everywhere, dealing in groceries, drugs or money, is to cut out red tape for the customers (though perhaps not for the managers) and speed up deliveries in established volume streams. Then again Brown can calmly telephone to his bank, "Jim, I want ten thousand for sixty days and I'm drawing a check now. I'll come over some time this afternoon and sign the note." Happy days!

A new view of local banking will discover that Grocer Jones has owed the bank \$5000 for 20 years and never paid it up, so the bank is really in partnership with him. Jones is a friend of the president who once clapped him on the shoulder and promised him "You can have that loan renewed as often as you want," and he's had to keep his promise. Chain groceries are crowding Grocer Jones,

¹⁴ From an unsigned article in *The Business Week*. p. 37-9. December 4, 1929.

and the bank may lose its \$5000. This sort of sleeper loan is nudged, awakened and payments are required to start.

Another friend of the bank carries a balance of \$1000 and habitually borrows \$10,000. This is secured by \$30,000 or \$40,000 of perfectly good collateral securities, it is true, but the borrower uses the loans to carry speculative stocks in which he himself has invested only a couple thousand—and that's not constructive banking for the community. Sleepers, margin loans and other non-constructive loans, will be crossed out by good chain banking.

Yet all these changes should take place anyhow. They are desirable. One banker sums up, "Banks will only hasten changes that are inevitable."

Crippled or staggering businesses which have been carried over frequent crisis by a local helping hand will probably not expect much sympathy from a far-off scientific eye. Duds will be discarded, not immediately, and not publicly.

The day of youth and speed will be accentuated among small business proprietors, as it has been in department stores and in personnel of large offices.

Yet when any individual borrower applies to the banking chain to be entrusted with a part of the country's funds, he will be submitted to a more rigid scrutiny than now. Banks will be in a better position to check up on his total outstanding credits with suppliers, including his loans from other banks. He will not be able to carry half a dozen loans in half a dozen banks, each of which thinks it is the only noteholder. Bank chains are commencing to set up inter-chain reporting bureaus which cover their territory pretty completely.

Banking has always been peculiarly a business of personal contacts. It must remain so. And big bankers, like the heads of chains, place even more reliance than the small banker upon personality. Big bankers "bank" on big personality. Show them a man with a

nation-wide view fitted to the increasingly nation-wide scale of business, and their money will zealously follow that man. One of the world's biggest banking houses withdrew its entire investment from a very large corporation because a twenty-eight year old executive resigned.

Chain banks may be one of the country's greatest educators in financial management, just as chain stores are our greatest educators in merchandising. Our income tax laws compelled millions of rather informal business men to learn accounting. Chain banks will compel them to learn dynamic profit-planning.

Education in finance will be successful. "Many an applicant for a loan today does not know what I am talking about when I draw a line between lending them capital and lending them credit," says one banker. "But in a few years each borrower can be forced to learn so much more about credits that he himself will draw a clear line, visible to him, between his capital and his credit."

Competition for money will open a small business man's eye to a national view of business changes. He will realize that faster progress a thousand miles away touches his pocketbook, his management, and his costs. He must be progressive according to national standards, not local standards.

THE TURNING FINANCIAL WORM¹⁵

These groups are peculiar to the West and to agricultural regions. They are composed of the strongest banks in their respective territories. They are extending themselves aggressively. Why?

The answer is that the beloved independent bank is obsolescent. Yet in spite of its inability to stand the gaff economically, legislatively it has been successful in secur-

¹⁵ From an article in *The Nation* by J. G. Curtis. p. 489-90. April 23, 1930.

ing laws for its own protection. It is as if the manufacturers of old oaken buckets had got laws passed to prohibit the establishment of municipal water systems. It would be natural to suppose that a way would be found to get around such laws. It would be necessary, though, not only to get around the laws, but also to surmount considerable prejudice based on a notion that old oaken buckets were an American institution, and that their use kept the people in control of their own water supply and preserved the nation from decay. Reform in the direction of branch banking—and by branch banking is meant regional or nation-wide branch banking—has not only been prevented by law, it has been obstructed even more effectively by the interests which stood behind the law. The inventors of group banking overcame this twofold obstacle only by making it possible for the independent bank to retain its identity (and its officers their jobs), and yet at the same time gain the strength through association which is one great advantage of branch banking. Group or chain banking is therefore a compromise of economics with law and with prejudice. It has the advantage for the public interest of the safety of branch banking; it has the advantage for the private interest that there can be as many bank presidents as ever. On the other hand, it has the disadvantage for the public interest that it cannot be so readily supervised by the state as branch banking; and the disadvantage for the private interest that it is administratively more cumbersome and expensive.

But to get back to Chicago. Just why has there been all this banking purity there? The fact is that the big Chicago banks, like the New York banks, have for years been cultivating the country-bank-correspondent business. If the independent country banks became members of branch systems their accounts with their city correspondents would be closed and the money would stay in the branch system. The same thing would happen that happened in California; every time a country bank joined

the Bank of Italy it made the Bank of Italy bigger and the Anglo and London Paris National or the Wells Fargo relatively smaller, since one of the latter lost the account. At the same time the country independents were in a panic for fear the more efficient branch systems would enter their towns and begin competing with them. The interest of the country bank and of its city correspondent became one. Since branch banking was a sharper issue in the West than in the East, the banks there being weaker, the Cook Country bankers were drawn more actively into the opposition to branch banking than were the New York bankers.

But New York has not been indifferent. Mr. G. W. Davison, of the Central Hanover Trust Company, made a moving appeal at the last meeting of the Bankers' Association for the "correspondent relationship." He hoped and believed that the big city bank was the country bank's best friend. Of course, that was something for country bankers to laugh at, no matter how much they feared branch banking. In the latter system a local banker knows at least where he stands, and that he can count on his organization, whereas if he is merely the correspondent of a city bank he knows he may be left in the lurch. But it is clear why so many New York and Chicago bankers do not want branch or group banking. It means change. The Pacific Coast and the Northwest will no longer have to supplicate the East. The hinterland is at last concentrating its financial resources for a bit of real independence, and the established money centers are not at all sure they like it.

This strengthening of sectional finances is obviously a gain. But it leaves untouched the charge that branch banking or its substitute, the group or chain system, will monopolize credit. Mr. Henry Dawes, who with his distinguished brothers controls the Central Trust, a Chicago bank with a correspondent business it does not want to lose, paints frightful pictures of the branch system

sucking all the money out of the rural centers. Even if this possibility existed—which is not for a moment admitted—there remains the present inadequacy of banks as they are. It is a calamity for banks to fail, a calamity to borrowers and a calamity to depositors. It is better to have them niggardly in their local loans than insolvent. But as a matter of fact a branch or group bank brings stability to a community and an increase of funds rather than a decrease. The great branch systems of Canada go into pioneer settlements where no sane and scrupulous independent banker like Mr. Dawes would ever go. And even in an established community where the independent is safe enough, a branch organization can maintain better service than the independent one.

On the other hand, it would be ridiculous to assume that great regional branch-bank systems are without danger to the public. They will, of course, need regulation and supervision beyond what banks now have. The advantage is that they can be supervised to some purpose. They furnish by the fact of their size and geographical spread a groundwork of practically invulnerable safety which the individual banker cannot approach. They offer the opportunity for increased services to small communities which the independent cannot afford to provide.

BRANCH BANKING NOT MONOPOLISTIC¹⁸

MR. STRONG. Governor Young, would you favor nation-wide branch banking?

GOVERNOR YOUNG. Not at the moment.

MR. STRONG. Why?

GOVERNOR YOUNG. I do not think that we are ready for nation-wide branch banking. I do not think we have the men trained technically at the present time, although, as I stated before the committee the other day, I believe

¹⁸ From statement of Roy A. Young, governor of the Federal Reserve Board, before the Congressional committee. *Hearing*, Op. cit. v. I. pt. 7. p. 753-4.

that eventually there will be a demand for nation-wide branch banking. It may be fifty years from now.

MR. STRONG. You think that when you get the men trained to handle it, it will come?

GOVERNOR YOUNG. I do. That is an opinion, Mr. Congressman.

MR. STRONG. Do you think it will be a good thing for the nation?

GOVERNOR YOUNG. Well, if I did not, I would not want to see it come.

MR. STRONG. If we have nation-wide branch banking, that will be practically a monopoly of the money and credits of the nation, will it not?

GOVERNOR YOUNG. I do not believe so.

MR. STRONG. Why not?

GOVERNOR YOUNG. Because I believe there will be many nation-wide set-ups, rather than one.

MR. STRONG. You mean that there will be competition?

GOVERNOR YOUNG. Strong competition, keen competition, between larger groups.

TRUST SERVICE—STATE-WIDE¹⁷

Whether it be a town with a small branch, located some four hundred miles from the home office of the bank, or a desert town to be reached only by a good day's automobile journey, and with no local banking facilities whatever, a traveling trust officer, one of a number appointed by the Bank of Italy to serve the less accessible habitations in the state, is always within beck and call to administer trust service.

A thousand miles separate the two Bank of Italy branches situated at either end of the state, the one in Crescent City which is only a short distance from Oregon,

¹⁷ From an article by J. K. Novins in *The Burroughs Clearing House*, p. 23-4. November, 1929.

and the other close to the Mexican border. Between these outposts of the bank's extensive branch banking system, are 165 cities in which it operates nearly 300 branches. It is all the more significant that in only 15 per cent of the communities served with such branch banking facilities, are there unit banks to perform trust functions.

From the trust officer's standpoint a good deal of this vast territory is not profitable, and suffers by reason of the long distance which separate the communities from the trust offices in the larger cities. In many of these communities trust matters have been handled, if at all, by banks operating in San Francisco, Los Angeles and other large centers. While these banks are fully equipped to render a high type of service, their administrative facilities usually are concentrated at the home offices in the big cities. Service thus rendered suffers by reason of geographical limitations. The contact of the trust department with its client is weakened, especially in the remote rural communities.

A state-wide trust service was the Bank of Italy's challenge to almost impassable mountain chains and the long stretches of sparsely inhabited country still to be encountered in certain parts of the state—by "planting" experienced trust officers in the various districts to develop, as well as to administer, trust business "at short range." How the Bank of Italy localized trust service in each community; training its branch representative to deal with trust problems right on the ground, four or five hundred miles from the home office, how it developed profitable trust business in districts where such specialized service had never been known to exist, forms a highly interesting chapter in a truly pioneering financial venture.

"Wherever you may live within the confines of California," the Bank of Italy announces, "the assets of the trust will be kept in your home city or at the nearest place in which the bank has a branch."

"As far as we know," said William J. Kieferdorf, vice-president and trust officer in charge of the entire system, "this is the first attempt to popularize trust service on such an all-inclusive and widespread scale. For the first time in the century-old practice of corporate trust service in the United States, the residents of rural communities can directly benefit by the various forms of service heretofore available only to the residents of large cities.

BRANCH BANKING AN AID TO GOVERNMENT SUPERVISION¹⁸

Mr. BEEDY. If it becomes desirable for a closer supervision of banking by the government, would the concentration of the banking business in branch banking groups tend to increase or diminish the efficiency of such government supervision?

Mr. POLE. My idea would be to make the supervision of the banks more efficient than it is to-day. I think it would be easier to do that under branch banking, in that there would be fewer banks to examine.

Mr. BEEDY. Then, your answer is—

Mr. POLE. And, by adapting a better method of examination than is in force to-day, the advantage would all be in favor of branch banking.

Mr. BEEDY. Your answer is, then, that the concentration of banking business into branch banking groups would make it easier for the government to make a supervision of the banking business which would result in an added element of safety to the depositors?

Mr. POLE. I think so, by reason of the fact that, under a branch banking system, where large institutions would develop, the question of policy would be given more consideration than under the detailed examinations which are made of unit banks to-day.

¹⁸ *Hearing. Op. cit. v. 1. pt. 3. p. 242-3.*

It might be, even, that there would have to be a more or less continuous examination going on. The Government would probably have a much closer contact with the executive committees and with the directors of banks, so that it would have first-hand knowledge of any change in banking policy, as applied to any particular institution.

EXAMINATION OF BRANCH BANKS¹⁹

MR. STRONG. Now, I want to ask you in regard to the matter of examination of these groups. Do you think where a bank has 100 branches that it is a safe examination to send examiners out to examine one of those branches and the next day another and the next day still another? Do you think that is a safe way to guard the public?

GOVERNOR YOUNG. I do not think that is what is done, Mr. Congressman. In these large branch set-ups, they usually center on the parent office and several of the larger branches and, in my opinion, that is a fairly safe examination.

Now, there may be some little discrepancy or something wrong out in a small branch. There might be a defalcation, but it would be so small in comparison with the total that it would not affect the solvency of the bank.

MR. STRONG. If the bank was in bad condition, could not they kite their funds around among the hundred branches unless they were all investigated, including the parent, on the same day?

GOVERNOR YOUNG. I do not think so. I think that by getting in the parent office and some of the larger branches, which the Comptroller now can do, that he can uncover anything that would be seriously wrong. . . Mr. Congressman, I am not a bank examiner and not trained along those lines. Those questions came before the Fed-

¹⁹ From statement of Roy A. Young, governor of the Federal Reserve Board, before the Congressional committee. *Hearings*, Op. cit. v. I. pt. 7. p. 777-8.

eral Reserve Board some time ago when we had insisted on a simultaneous entry and we called the Comptroller of the Currency at the time and discussed the situation with him and also consulted our chief examiner. The conclusions of those men were that, with a large set-up, where they could get into the key places—the parent office and at an occasional outlying branch—that they were fairly safe in so far as the solvency of that institution was concerned.

MR. STRONG. If there was danger in the bank and it was unsound, do you suppose they could tell where the key places were?

GOVERNOR YOUNG. Yes.

MR. STRONG. The banker who realizes he is insolvent would not be likely to cover up the small places and leave the key places open?

GOVERNOR YOUNG. Well, the examiner would get quickly to the place where he suspected trouble.

BRANCH BANKING INCREASES OPPORTUNITIES FOR EMPLOYEES²⁰

MR. WINGO. There is another objection that has been urged against branch or group banking, and that is that if you drive the unit banker out of business with the branch banks, there will not be any more opportunity for advancement in the banking world for young men who want to engage in the banking business.

What is your answer to that?

MR. GIANNINI. I do not know but that Mr. Bacigalupi can cover that better than I, but I will say this, that there are a lot of people in the Bank of Italy to-day who would have still been small salaried bankers if it had not been for the Bank of Italy taking their bank into the sys-

²⁰ From testimony of A. P. Giannini, founder of the Bank of Italy and the Transamerica Corporation. *Hearings*. Op. cit. v. 2. pt 11. p. 1549-50.

tem. The moment that was done they had the opportunity to grow up from a managership or assistant cashier-ship or teller in that branch to a teller or official in a bigger branch, and finally to the head office.

I can illustrate one case right here. Mr. Vincent, for instance, is our cashier now. We bought a bank in Stockton some eight or ten years ago, was it not?

MR. VINCENT. 1917

MR. GIANNINI. What were you then? Bookkeeper?

MR. VINCENT. Bookkeeper.

MR. GIANNINI. And I think we brought you to the head office inspection department?

MR. VINCENT. Yes.

MR. GIANNINI. And so on down the line. To-day Mr. Vincent is the cashier, near the top, at the head office; then one of our officials in Los Angeles was formerly the manager of a small Livermore Bank, a \$1,500,000 bank—Mr. McFadden knows him—and to-day he has passed the million dollar mark; he says that he wants to take things easy. That man was getting \$18,000 and an interest in the profits at the time he retired.

Take the former \$300 men, and we have many men like that. Mr. Mount, who is now president of the Bank of Italy, and Mr. Blauer, chairman of the general finance committee and the head of the credit department, and so down the line. In fact, we built up our organization mostly through the employees who came into the Bank of Italy in connection with these banks that we have taken over. The moment we take over an institution the bookkeeper, say, there, is aroused to new hopes for the future. We have promoted many of our executives from the branches, and they have developed. We have unquestionably one banking organization that can do nation-wide or world-wide branch banking, because of the fact that we have these men.

MR. WINGO. In other words, you contend that branch banking opens a wider door because of the opportunities

for advancement than is the case with the individual unit bank?

Mr. GIANNINI. Absolutely. To-day there is a dearth of good banking material, but you develop men in branch banking through your departments in a way that you can not develop them in a one-man bank. First of all, the president of a one-man bank, if he controls that institution, does not want anybody around him who amounts to much; he usually wants to run it with "yes" men; whereas in a bank such as ours or in any other big business you have to have men around you who can make their own decisions. If the head of a department wants to surround himself with "yes" men, the general executive committee, representing the stockholders, will see to it that the condition is changed. There are men in our various departments who will be able to take the place of the department head when he goes out. In all big businesses to-day they see to it that there are men in line to take the place of those above them. That situation can not obtain in the small institution, and in consequence the one-man business is rapidly disappearing.

DECENTRALIZATION OF CREDIT SECURED BY MULTIPLE BANKING ²¹

(a.) MRS. PRATT. The Comptroller of the Currency, and I do not know whether Governor Young made the statement, but it was made here several times, said that it was desirable to decentralize credit and to have a greater number of credit centers throughout the country. Would you subscribe to that?

MR. DECKER. Absolutely, but those centers must be large enough and strong enough to be of some conse-

²¹ (a) From the testimony of E. W. Decker, president of the Northwest Bancorporation, Minneapolis, Minn., before Congressional committee. *Hearings*, Op. cit. v. 1, pt. 8. p. 859. (b) From the testimony of A. P. Giannini, founder of the Bank of Italy and of the Transamerica Corporation. *Hearings*, Op. cit. v. 2. pt. 9. p. 1541.

quence, or you accomplish nothing. We, therefore, have set up a unit which in diversification and size we believe is large enough.

I want to make this perfectly clear, that we are in a very much more independent position of New York financially to-day than we ever were in the history of that country. There is no comparison. When Mr. Wakefield and I go down to New York to-day, they sit up and take notice. Why? We do not represent just one little bank that they can do what they please with; we represent an aggregation of capital and an aggregation of men and an aggregation of brains in different lines of business, so that they have a wholesale respect for us, and any deals we have with them are entered into to-day on a very much different basis than they were formerly.

(b.) MR. GIANNINI. To-day in California we have in the state something like 4,000,000 population. Yet because of our branch banking system we are able to do things out there that they are doing elsewhere only in cities of 5,000,000, 6,000,000, and 7,000,000. The city of San Francisco, had a \$41,000,000 bond issue for its water system, and the Bank of Italy handled the whole thing. I think that you will find Mr. Rand, at Buffalo, can do the same thing. And let me say here that I think in what these large banking systems in cities such as San Francisco, Buffalo, and so on, can do, you have the answer to the question raised by those who fear that Wall Street is going to control all the money. Mr. Rand has probably \$400,000,000 at his command, and why in the world should he want to go to Wall Street and put himself under one of these New York bankers? He is going to handle his own affairs and keep all the business he can in Buffalo.

NEGATIVE DISCUSSION

IN DEFENSE OF UNIT BANKING¹

AN AID TO FRAUDULENT PRACTICES

The collapse, about two years ago, of what was, so far as the number of its members was concerned, probably the largest chain that has ever developed in this country, developed a situation which would be amusing if it were not tragic. Certain members of this organization paid to the managing control a large sum of money for instruction in those practical aspects of banking in which the small banker is generally considered to be inexpert. They acquired both knowledge and experience, and in some cases enough bad securities to bankrupt the banks.

The device of transferring assets of local origination to different sections by this method results in an exceedingly difficult task for the supervising authorities. When small loans on real estate are switched from Florida to New York, the New York bank examiner has an almost impossible task in ascertaining their value. The responsibility and the control in chains is often hard to locate, and when located is, as a rule, more distinguished for its control than it is for any financial responsibility.

Branch banking is concentration carried to the nth degree. It may be said for it that the location of responsibility and control is much more definitely ascertainable than is the case with either of the other forms of syndicate operation. Branch banking in this country has not yet passed state lines. If it does an interesting problem will develop as between state and national control. Any

¹ From the statement of Henry M. Dawes, Chicago banker and former comptroller of the currency. *Hearings*. Op. cit. v. 2. pt. 13. p. 1753-60.

system of branch banking offers great difficulties in the matter of examination, either private or governmental. The possibility of switching assets from branch to branch can only be definitely prevented by having an examiner in each branch at the time of examination. I do not know of a case where this has been done up to the present time, but branch banking is in its infancy. It would be utterly impracticable to have examiners in every branch of an institution that, for example, had 1,000 branches. If absentee banking is to be approved, and if centralization is desired, much is to be said for the advantages of this form as compared with the others that involve the same principle.

Since all of the constituent banks, both a bank in trouble and the others whose stocks represent the assets of the holding company, are under the same management and are presumably operating in much the same territory, they will, as a general thing, prosper or suffer at the same time. When an emergency call is made by a subsidiary it will be at a time when the other subsidiaries are in the poorest position to support it and when the stock of the banks not directly involved is the least valuable as an asset. It is rather interesting to hear the advocates of this system of banking contend vigorously that they will always be in position to support a weak unit, particularly to one who is conscious of the relationship between fundamental conditions in a district and the condition of the banks. The epidemic which occurred a few years ago in the small banks of the Northwest and which occurred more recently in Florida was not due to bad banking. It was due to bad crops, low prices, hurricanes, and conditions beyond human control. The banking was not bad. It was simply not good enough to combat the laws of nature.

SPECULATION ENDANGERS BANKING

The prices at which these stocks in unit banks are purchased by exchange for stock of the holding company to

a very considerable extent must determine the responsibility and the ability of the holding company to support its units. It is very rarely that the stock of a good and well organized bank sells at as low a price as its book value. Anything above book value is, in its last analysis, of course, an estimate of future earning capacity except possibly some speculative value in trading. It is very rarely that bank stocks are acquired by holding companies on their asset or book-value basis. They are absorbed rather on the basis of what it is hoped that they will be able to earn in the future, the extent to which they will strengthen the general organization, and the fear that some competitor may absorb them. This has resulted in a tremendous speculation in bank stocks, and this advance and speculation has produced a dilution in the real asset values of the holding companies. It introduces definitely the promotional theory and stimulates speculation. It is altogether a sad departure from the stability and the dignity which has always been a tradition of the banking profession, and it is thoroughly inconsistent with the trustee relationship. To cite instances of the organizations which are sound and well officered and constructive in their operation that have been organized by this system of trading for stocks in holding companies by no means justifies a procedure which is certain to result in bad practices on a large scale.

Up to last fall anything could be consolidated through the holding-company route, if not directly, and almost any profit, evidenced by stock in the holding company, could be realized by the promoter. In the feverish search to find earnings to capitalize the fruitful field of bank stocks was exploited with other stock. It was not legislation but economic law which closed this cycle.

BANKING NOT ADAPTED TO MASS PRODUCTION

The succesful operation of a number of large, well organized companies of this kind is freely conceded, al-

though whether the individual good banks which compose them have been bettered is debatable, but if this principle of indefinite centralization and consolidation by trading stocks is carried to its logical and obvious conclusion, the outcome will be that the banking system of the United States will be in the control of a few organizations which have contributed little if anything in the way of capital and which owe their origin to the dexterity and skill of their officers as traders. Undoubtedly a great many bankers located in our large interior cities have visions of developing holding companies which control the banking situations in their sections, and the ambition eventually to become overlords of feudal principalities, coextensive with the Federal reserve districts. They can draw a most alluring picture and appeal most strongly to provincial and sectional prejudice. Personally, I have never been able to locate Wall Street very definitely, except in a geographical sense, but whatever Wall Street may be they expect in this way to become emancipated from it. If it is feasible to concentrate the banking of a Federal reserve district in one control in twelve districts, does it require any very great stretch of the imagination to conceive a combination of these twelve districts and a new and real Wall Street? Call it by any name you will, the concentrated control of banking in a few hands is involved, and in spite of the size and resources of our country the number of hands will be very few.

There is an economic argument and a social excuse for industrial and commercial consolidations, which, on account of the quantity theory of production, can better supply the needs of the public, but credit is not a commodity. No legitimate parallel can be drawn between the large industrial unit, covering a great territory, and the large banking unit with distant ramifications. Your industrialist is dealing with a commodity which he has bought and paid for; the banker is dealing with other people's money.

In those cases where the problem of the small, unsound bank can not be solved, and their elimination has

been brought about, the central organization claims a great public service in offering to set up branches. The extent to which it is feasible to establish branches where units can not be profitably operated is debatable, but the communities which will support a branch and not a unit are in a small minority, and in a very large proportion of those cases there is no great public convenience and no public need taken care of. The farmer who, in the old days, had a practical radius of perhaps 12 miles with his horse and buggy, to-day with his automobile can cover 100 miles. If he is deprived of a crossroads bank he can go to the county seat. Conditions which, thirty years ago, justified the establishment of a branch in rural districts, have changed entirely to-day, and the district which can be reached from a county seat bank with convenience to its customers is, in most Eastern states at least, practically the limits of the county.

There is at the present time much discussion of the principle of the chain store, but the parallel between the chain store and branch bank is in one respect only applicable. This is in the matter of the substitution of employee for owner operation. Chain stores may or may not be an evidence of progress, but the fact that they are dealing with commodities and not with credit makes a comparison pointless. If a chain store is able to deliver its wares to its customers more satisfactorily than the local merchant, it is because of an advantage over their small competitor which the group banker does not have over the small banker. If the chain store can sell more cheaply than its competitor, it is because it can buy more cheaply because it buys in large quantities. Paying less for its raw material it is in position to sell its product at a lower price. This is the only advantage it has over the local merchant because its other operating expenses are as great or greater. The product with which a banker deals is money.

The price that he pays for money is interest, plus losses on bad loans. As far as the depositor is concerned,

the small banker usually pays less interest on deposits than does the big banker. The general price of money, however, is reflected by the Federal reserve rate and Federal reserve funds are available at the same rates and on the same terms for big and little bankers. The big banker, therefore, does not get his stock in trade any cheaper than the little banker. The remaining factor in the cost of this raw material—money—is the extent of losses in bad loans. Bad loans are due to either incompetence on the part of the banker or a disposition on his part to render service to his clients and to his community even though it involves a certain recognized risk.

IS THE UNIT BANKER INCOMPETENT?

Let us analyze this question of incompetence. The complacent arrogance of size and wealth asserts that the big operator, whether in banking or any other commercial pursuit, is a better man than the little operator, allowing for no fortuitious circumstances by which the big man may have achieved his greatness. Assuming then that the big banker is a better man than the little banker, he is handicapped in his operation because he knows less about his credit risk than does the little banker, especially if the big banker is a chain banker and the little banker is a unit banker. The unit banker, particularly in the smaller communities, is the personal acquaintance and friend of the man who makes the loan. He is familiar not only with the details of his business, but he knows his character, experience, and ability. He has every advantage over the man who must form his conclusion as the result of the recommendations of a minor employee in a distant city. The owner of a bank will make less bad loans than an employee whose superior may be a thousand miles away. If, however, banks are to be conducted as pawn shops, where standard collateral is the only basis for loans, it makes no difference whether loans are made by financiers or clerks. Anyone can apply the simple formulas.

If banking is not considered a social responsibility, there is no excuse for any bad loans. This is not the case, and certain risk must be taken in the interests of progress and in response to the public interest. Remembering that the banker is a trustee for the community's funds, he has no more right to withhold them unreasonably than he has to disburse them carelessly. As a member and a product of the community in which he operates, the unit banker is in a position to appraise the public needs and to administer them more sympathetically and more intelligently than the absentee banker. In doing so it is not impossible that he may, at times, incur losses which the absentee banker would not, but these losses which are made in the exercise of public responsibility will not, in the main, offset the saving he effects over the operations of the chain institution because of the intimate personal acquaintance with the creditor. In considering such losses of the unit banker as may be the result of too great liberality to local enterprise, it must be remembered that the money which is lost to the bank is not lost to the community, that the brick and mortar upon which these funds may have been expended are still in the community, whereas if the funds are loaned by absentees to absentees the loss registered on the balance sheet is a loss to the community. The big bank and the little bank, therefore, start with the same base in the cost of raw material. Their additions to this in the way of losses are not widely different, and the only advantage, therefore, of one over the other must be economy in mechanical operation.

Economy in mechanical operations is a thing which can reasonably be assumed for both the branch and unit system. Such advantages as there are, however, in my opinion, rest entirely with the unit system. The overhead of a central organization and the red tape which is involved in its operation, the delays in decision, the division of responsibility, and so forth, ad infinitum, are inherent

in size, and are a deadweight which the injection of specialists does not offset.

GROUP BANKING NO SOLUTION FOR FAILURE OF SMALL BANKS

The availability of money is as important as the price thereof. It is conceivable that in the city of the central bank, on account of drawing funds from the smaller communities, more money would be available, but it hardly is in accordance with nature for the central office communities to pump its funds out to the smaller branches. The inevitable results of centralization will be to restrict the activities of smaller centers, and to accelerate the concentration of population in the larger cities.

Under the unit system of recent years, the percentage of loss to depositors in large banks has been so small that it is practically negligible. The extent to which failures have been confined to smaller institutions is demonstrated by the fact that in the eight years ended December, 1928, 63 per cent of the total number of failures was confined to banks with a capital of \$25,000 or less and that 88 per cent of the total was in banks of less than \$100,000. Further, as showing the extent to which the trouble was confined to small municipalities, 40 per cent of the total failures occurred in towns of 500 population or less (and it is a very unusual situation where a bank is justified in a town of less than 500), 60 per cent in towns of 1,000 or less, and 80 per cent in towns of 2,500 or less. The problem of safety is therefore largely a small-bank problem. The group banker suggests that he will solve this by extending his branches or chains to the communities in which these little banks are located. How does he intend to do this? Does he intend to buy up the good banks of the community and incorporate them in his chain? If so, he hasn't improved the situation. Does he intend to buy the bad banks? I have not heard of them suggesting this. Does he intend to compete with

the good banks? This would not be desirable, as it would substitute absentee control with no compensating advantages. His answer would hardly be that he would want to compete with the poor banks, as obviously that would quickly cause their failure and injure the community. It seems to me that the only claim must be, and it may be a fair and reasonable one, that his objective is to eventually supply branch or chain banks to every community that needs banking facilities, and to the complete exclusion of the unit bank. If he can operate as economically and serve the community as well as the unit bank he will soon eliminate the unit banks.

EXTINCTION OF UNIT BANKS THREATENED

Unit banks can not survive the competition of chain or branch banks. They serve the community better, but it is at a serious disadvantage in two respects. In the one case certain clients who are very profitable to a bank are compelled to patronize the chain or branch institution in all matters because they can serve them in some. The management of a concern which operates in a number of different cities is very often associated in business enterprises with the men who are conducting central institutions, and will, as a matter of course, patronize their branches at the expense of the unit banks. When he is not associated with them either socially or in a business way he frequently has to meet them in connection with the issuance of securities. When he does this he incurs, either directly or indirectly, an obligation to patronize their branches. Whether he wants to or not, he is in a position where he feels that his interests require him to throw his business to the big chain rather than to his friend and neighbor. This class of patron usually constitutes a large portion of the cream that is now coming to the unit bank. Furthermore, entirely outside of the banking relations, the operators of small commercial and business enterprises are very much handicapped in meet-

ing their larger competitors if those competitors have the ear and the approach to the avenues of credit that can only be reached in central cities after the unit system has been discarded. This situation can not be ignored by the assertion that the chain bank can offer facilities that the unit bank can not, because there has never been a time in the history of this country that, through the operation of the correspondent system and the use of various methods of syndicating loans in financing, it has not been possible for the small banker to accommodate his clients who are entitled to credit. The difference is that in the one case the client is dealing with a friend and a neighbor, and in the other he is dealing with a stranger in a distant city, and as every unit bank becomes attached to a chain the opportunity for syndicating cooperative arrangements between others is narrowed. It can not, I think, be contended with justice, that when the country is eventually under the centralized system these banking arrangements can be made with more celerity, if at all. There are few business men who are not familiar with the red tape which is essential to safety in the operation of a very large organization.

Whatever the fundamental reasons, the fact remains, nevertheless, that few localities can be shown where unit and chain banks or branches have existed for a very long period in competition, and it is the centralized group that is the survivor; but it is not, in my opinion, a case of the survival of the fittest, unless the social aspects are disregarded. The issue is one of survival, and it is hopeless to attempt to compromise.

In spite of general claims to the contrary, these new syndicates have done little, if anything, to solve the difficulties of the unsound small bank, whose failure is being enlarged upon as an argument for the inauguration of a new economic era. They can not solve this question, and it never will be met except by the inexorable operation of natural laws. Just as truly as there is a point at which

too great size destroys efficiency, there is a point below which the unit can not survive. There are hundreds of banks of less than \$100,000 capital that are sound and strong and have every element of vitality inherent in them, but the measure of such banks' ability to survive is not the size of their capital but the extent of the resources which the community can put into them. Generally speaking, however, the banks with very small capital may be assumed to have very small deposits, and the overhead cost of such an operation is such as to prevent their thriving, and the principal reason for their failure is the fact that they can not afford the expense involved in securing the service of competent officers. To expect to secure a very high class of talent for a salary of \$2,500 to \$3,000 a year, which is all that a very small bank can pay, is unreasonable.

A PROBLEM FOR GOVERNMENTAL SOLUTION

The responsibility for this rests primarily with Congress and the state legislatures in permitting the chartering of too small institutions, and secondarily with the authorities, both state and national, to the extent that they should have exercised discretion in refusing charters where communities did not require them. The discontinuance of the issuance of further charters below a reasonable limit would be constructive. The only thing that can be done for the unsound banks which are now in existence is for the supervising authorities, state and national, to help them to bring about liquidation in a way that will occasion the least loss and to supervise the sound banks as carefully as possible and stop chartering too small institutions for which there is no need. The injection of the branch and the chain system will only exaggerate a bad condition.

The Federal reserve has been in successful operation for a matter of some twelve years and it is natural to fall into the habit of thinking of it as though it were an in-

dependent unit rather than as it actually is, a coordinating agent. It is merely the composite of the members of the system and automatically changes with any change of its constituents. To recall this obvious fact centers attention on the effect of changes which private banking innovations will have on the Federal reserve system. The operations of state and national banks and the Treasury Department and the Federal reserve are inextricably interwoven and it is impossible to legislate in any matter affecting one independently of the other. The Federal reserve was organized because of the ability of the Federal Government to enforce the more or less unwilling and certainly unenthusiastic cooperation of the national banks. This was later followed by the timid and tentative approach of the state banks, so that its membership at the present time is partly compulsory and partly voluntary. It is the final evolution of a century of finance and the solution of the conflict of the years between the centralization theory and the independent unit theory. In a sentence, it consists in the application of coordination to independent units.

With the development of the chain, branch, and syndicate banks the membership is being changed from that of independent, locally operated units to centralized groups under absentee control. Every group which is organized along these lines decreases the number of persons who, in its last analysis, would control the operations of the system. In the case of holding companies, the holding companies themselves are under the jurisdiction of state officials. The state banks are under the supervision of forty-eight different superintendents, and the national banks are the only private institutions engaged in banking over which the Government has direct control.

This brief statement of fact makes clear that with the decline of the national banks, the direct influence of the Government on banking operations is decreased, and

the further fact that with the organization of groups, the democracy which has characterized the operation of the Federal reserve system is being undermined. It seems to me desirable, therefore, that the Government should do every possible thing that it can, in justice to the state banks and the Federal reserve, to strengthen and develop the national banks, through which it financed the Civil War and organized the Federal reserve system. The other matter of the centralization of the control of independent units involves a control of the Federal reserve system. When in the logical development of this tendency, the control of banking in the United States gets into very few hands, control of the Federal reserve system will go with it into the same hands. In discussing chain, group, and syndicate banking you are, therefore, discussing the whole fiscal system of the country, both private and governmental.

It seems to me that there is no room for compromise on this subject and that a determination should be reached as to whether the United States wishes to embrace a national system of branch banks or to preserve its co-ordinated independent units. It can not do both.

When the greatest exponent of branch banking, both in practice and in theory, states that in his opinion the development of chain and syndicate banking is a step toward national and international branch banking, it bears the weight of logic, as well as of his prestige. Rather than to temporize and to attempt to compromise a fundamental issue, the interests of the public would in my opinion be better served by determination as to whether or not branch banking is desirable. Compromise and permissive legislation would have the effect of strengthening the movement to such an extent that when, at some later time, the public rebelled against monopolistic tendencies, it would bring about a convulsion which would hurt everyone.

BRANCH BANKING A NATIONAL MENACE²

UNIT BANKING SYSTEM ADAPTED TO OUR NEEDS

The development of the American banking system has been an evolutionary process, and the preeminent strength which it possesses in world finance at the present time is in large measure due to the fact that it took its form in a gradual and orderly way, meeting, by practical adjustment, conditions as they developed. It is distinctly not an adaption of any foreign system, nor is it a structure conceived and built by any individual or group of individuals at a given time involving the rigid enforcement of a ready-made theoretical plan. Under our system of banking the most stable and most rapid economic development that the world has ever seen has taken place.

From time to time efforts have been made to substitute for the old machinery a system which might seem to be theoretically and technically more perfect. The frontal attacks of the proponents of foreign banking systems have invariably broken down without, in any substantial manner, permanently modifying or affecting the general principles of American banking. The genius of the American people for independence in matters of local self-government is thoroughly ingrained and will never succumb in any clean-cut issue where the choice rests between centralized control and personal and community independence.

At the present time no direct or open attack is being made on these traditional principles. The danger which confronts our present banking system lies in an insidious and gradual undermining influence which is not so much the outgrowth of a conscious effort to introduce a new system as it is the result of a natural desire to secure temporary benefits for particular individuals and banking institutions without consideration being given as to the ul-

² Annual report of the comptroller of the currency (Henry M. Dawes), 1923. p. 5-12.

timate effects on the highly complicated and efficient machinery of American finance and exchange. It is peculiarly a time when these indefinite tendencies should be precipitated into their essential elements.

If a new system and theory of banking is in progress, it should be determined whether or not it is a desirable system; and if a desirable system, it should be encouraged, fostered, and put into effect as rapidly as possible. If it is not a desirable system, that fact should be developed and steps should be taken now to eradicate it before a condition has developed which would involve a great national disturbance and injustice to individuals and communities.

The above observations apply to the general subject of branch banking. By branch banking is meant an association of banking houses operating in one or more cities or towns but all under the discretionary control of the board of directors of a parent bank and upon the capital of the parent bank.

PRINCIPAL ISSUES INVOLVED IN EXTENSION OF BRANCH BANKING

The discussion of branch banking seems naturally to divide itself into three main questions:

First. Is a reserve system, either governmentally or privately controlled, necessary?

Second. Can the present Federal reserve system survive the imposition upon it of large and powerful chains of branch banks which, in practice as well as in theory, are privately owned and privately controlled reserve systems?

Third. Can a general system of branch banks exist simultaneously with a system of independent unit banks?

If it should be concluded, in the consideration of these questions, that the Federal reserve system is necessary and that it can not survive the strain upon it of systems of branch banks, and that branch banks will mean the elim-

ination of independent banks, it will then, I believe, be a logical and necessary conclusion that *the issue is a clean-cut one as to whether the country prefers a system of privately owned branch banks or a reserve system under Federal control.*

IS A RESERVE SYSTEM NECESSARY?

As to the first question, namely, the necessity for a reserve system, it seems hardly necessary, in view of the record of the existing organization, to enter into any extended arguments, but it would, perhaps, be well to state some of the basic considerations on account of which it was given its present form. The principle of a central bank has been a controversial one for over a century. In deference to the widespread and thoroughly American distrust of the centralization involved in a single Government bank, twelve banks were established in different sections of the country in order to secure the closest possible contact with the local member banks and a thorough understanding and adaptability to community conditions. Through the operations of the twelve individual units a proper sympathy with and understanding of local conditions and needs is secured, while at the same time, through the Federal Reserve Board, a liaison between the districts and the detachment necessary for a proper compromise between local interest and national policy is secured. Through the Federal reserve system the transfer of funds from points of surplus to points of deficit is accomplished with the primary purpose of promoting the best interests of the whole country and not with a view to enabling individuals or sections to reap a financial advantage at the expense of others. If it were assumed that the instrumentality for the transfer of funds could be provided by a private reserve system, such as a branch banking institution, it could hardly be fairly contended that the controlling influence would be other than profit. Necessarily, in adjustments of this kind

the interests of a branch bank or individuals must be private profit and not public welfare.

The whole Federal reserve system bears a very striking analogy to the general principles which underlie the American Government, being founded upon a system of checks and balances calculated to preserve local independence under centralized and coordinating control. It would be so distinctly a step backward and so manifestly a dangerous proceeding to destroy the regulated cooperation of banking facilities that it seems entirely unnecessary to discuss further the necessity for some sort of a reserve system, and the issue is, should it be done by governmental coordination or private centralization?

CAN THE FEDERAL RESERVE SYSTEM SURVIVE THE OPERATION WITHIN IT OF LARGE BRANCH BANKING SYSTEMS?

The second point referred to, as to the ability of the Federal reserve banks to survive the imposition upon the system of large privately controlled reserve systems, is a practical one which the Federal Reserve Board has met in a clear-cut and courageous manner. The board acted upon the assumption that it has the moral and legal right to refuse admission to the system of any institution which either because of its financial condition or the method of its operation is unsound, and that it has similar obligations to its members. It is reasonable to assume that a bank, for administrative purposes, might safely control ten branches, but the same bank under American conditions might not, in safety to its depositors and general creditors, operate 1,000 branches. If the Federal Reserve Board had taken a neutral position on the general issue of branch banking and had not refused to sanction its general extension, but had attempted to settle each application for a branch without adherence to a fixed policy it would have been faced continually with decisions of a highly controversial nature. The local situation, the

personal equation, the temporary financial conditions, and a thousand and one conflicting influences would have had to be balanced and considered in every application for a branch. However wise their decisions, the board would, of necessity, frequently have appeared to have been arbitrary and improperly partisan. The publication of their reasons for action in particular cases would frequently be productive of injustice to the individual applicant and disturbance to the financial community, and on the other hand if the reasons for decision in these matters were not made public the system would be subjected to such attacks and insinuations as would eventually seriously impair its standing and be destructive of its dignity and influence. In order to avoid these consequences the board has adopted a general policy of clarification and control.

The elementary considerations which I have stated above and purpose to elaborate further seem to me to justify the decision on the part of the authorities to limit definitely the extent to which member banks may indulge in the establishment of branch banks.

DIFFICULTY OF EXAMINATION

As a practical consideration, aside from the broader aspects of the case, it must be constantly borne in mind that the Federal reserve system can only be successfully maintained if the administrative authorities have an adequate knowledge of the conditions of the member banks. This necessitates examination, which, in the case of the national banks, is provided by the Comptroller of the Currency, and these national banks can not engage in banking beyond the limits of the city in which the institution is located. In the examination of state banks the Federal reserve system is compelled to rely on its own examiners and such incidental and voluntary assistance as it can secure from the various state officials.

The examination of an institution with branches and subsidiaries is a very difficult one. The interdepartmental

relationships vastly complicate it. It is more difficult to examine ten institutions of a given size which are associated in a branch banking system than it would be to examine 10 independent institutions, as all of the transactions between the different branches have to be investigated and eliminations and adjustments made to produce a composite picture and prevent the improper manipulation or shifting of assets. This can not be done satisfactorily without a simultaneous examination of the parent bank and all of the branches. Bank examination involves very much more than a mere scrutiny of figures. Questions of moral character, of local reputation, of valuations of securities, of conformity to laws and rulings—these and many other elements enter into a proper examination. In the case of the examination of a large bank, with 75 to 100 branches, it would be impossible to mobilize a force of examiners of the ability to make an intelligent analysis of the situation in each individual community, even if it is to be assumed that the character of the banker is not a factor in the condition of the institution.

DANGER TO FEDERAL RESERVE SYSTEM

The last stated considerations are incidental as compared with the more important one which involves the ability of the Federal reserve bank to meet the mobilized demands of an association of institutions under the control of a single interest having the power to concentrate the requirements of all of the separate institutions into one demand. This demand might be made practically without notice in a period of stress, on account of necessity, or with a desire to produce a certain condition in the community which might be opposed to the general interest but favorable to that of the particular institution. To say that if a large proportion of the banking interests of a state are centralized in the hands of five or six or a dozen branch banking institutions and that these institutions will not combine, either as a result of direct con-

ferences or agreement or of mutuality of interests, is to ignore the fundamental basis of human action. If any lessons are to be drawn from the development of large industrial enterprises in the United States it is that the principle of centralization, when once inaugurated, will proceed, unless interfered with by governmental action, to a point of complete concentration in an individual, or a group dominated by an individual. Should a situation of this kind develop in any Federal reserve district the Federal reserve bank would either be eliminated as a factor in the financial community or be virtually under the control of such a group.

BRANCH BANKING ESSENTIALLY MONOPOLISTIC

As to the question of whether or not it is possible for independent unit banking systems to exist and operate in conjunction with a branch banking system, very definite conclusions may be drawn from the results of the operations of branch banking systems in other countries.

Experience in other countries definitely indicates that independent unit banks do not exist parallel with branch banks. As indicating that this is not necessarily due to conditions which exist abroad, but might not exist in the United States, the following points are adduced, which clearly indicate that there are such inherent antagonisms between the two systems that they could not under any circumstances long operate together in the same country.

Branch banking is, in its essence, monopolistic. The financial resources of a number of communities are put under the control of a single group of individuals. Funds liquidated in one community may be used to develop other communities at the discretion of the officers of the central bank. The economic development, therefore, of a given territory under the control of a branch would depend upon the policy of the bank. The bank would have the power to retard or to encourage the development of a given community or individual enterprise. In

this connection it has been well said that if the sudden creation of great branch banking systems resulted in withdrawing funds from the support of rural communities in order that they may be invested in self-liquidating commercial paper originating elsewhere, then it will be true that sound abstract banking principles will have been applied, but at a cost to the future development of the rural communities that will far outweigh any advantages that may be gained.

SERVICE OF THE UNIT BANKS

In a system of independent unit banks, the bank which best serves the community is the bank which is most certain to live the longest and be the most profitable to its stockholders. Since the type of man who starts a bank in a small community is essentially constructive, his natural associations and sympathies are with men of constructive type, and he extends the facilities of the bank most liberally to them. His loans take into account, as a first consideration, character and moral responsibility. He is naturally inclined to encourage young, aggressive, and enterprising individuals who will, in the course of time, bring business to the institution as he succeeds, and will develop commercial and industrial enterprises and be a factor in the creation of corporate and private undertakings, all of which will be feeders to the bank. As this type of individual is usually not the possessor of high-class collateral at the beginning of his career, the banker is dependent in a large measure upon character, of which he can only be sure by personal contact and acquaintance.

The distinctive accomplishment of the banking system of the United States, is its contribution to enterprise and its stimulation of growth; its criterion is service.

It can well be said that the rapid economic development of America has been largely due to the policy of the pioneering unit banks which recognized this prin-

ciple of service. It is inconceivable that the representative of a nonresident board of directors should be granted the authority and the discretion to make a type of loan which is based on character, knowledge of local conditions, and ultimate benefits to be realized by the community and by the banks. While it requires a high order of ability to make this class of loan, the banking history of the United States would show, in the main, a surprisingly small mortality. These loans, however, on account of their small size in individual cases, and difficulty of ascertaining their intrinsic value, do not afford a basis for discount with other banks in case of stress, and no bank could exist if it were dependent entirely upon them. If across the street from the unit bank making this sort of loan were the agent of a great branch banking institution, this agent would very quickly acquire the larger and, from the narrow banking standpoint, the desirable business of the town. This he could do by offering lower rates of interest on loans and higher rates on deposits than local conditions would ordinarily justify, which, in the nature of the case would probably be withdrawn as soon as the independent unit banks of the town were finally eliminated. This is a process which has been pursued in the evolution of our great industrial enterprises which have had to be curbed by the action of the Sherman anti-trust law and other governmental action.

The opportunities for coercion on the part of large institutions with branches scattered over a whole state are very great. This coercion might take any one of a number of forms. The connection of the branch banks with out-of-town customers of the institutions of a community permits of pressure being readily brought.

Under the Federal reserve system, and through his relations with his correspondents, the competent unit banker is able to secure for the larger customers of his town facilities which are beyond the abilities of his own institution to grant. The branch banker can, in the case

of very large customers, grant these facilities more directly and to that extent is rendering a special service to the community, but the ultimate result of these influences is to give the easiest obtainable and most desirable business to the branch bank, leaving the unit bank to take care of the enterprises of the town which have not already reached a condition of independence.

The expression has been used as applied to one state where branch banking exists on a large scale that the branch banks skim the cream and the unit banks are left with the skimmed milk, the result being that the unit banks have gone out of existence and the borrower who is a good moral risk but can not produce a certain form of collateral is left to depend on the good graces of a representative of a branch bank who is frequently the possessor of all the discretionary powers of the local railroad agent and no more.

One of the monopolistic influences exerted by the branch banker is the ability to secure, by the payment of higher salaries, the transfer to other points of the efficient employees of the unit banks. A general procedure in the creation of branch banking systems in one of our American states has been the absorption of local unit institutions. During the first few years the operations of these local unit institutions have, in many cases, been successful because the enterprising and pioneering talent that created the bank is still retained in an official capacity, but men of this type will not long consent to hold positions which are, in their essence, merely advisory, and there is soon substituted therefor the type of employee who must be bound by rigid instructions and is capable of interpreting them in only a mechanical way. In case of an acute financial disturbance demanding immediate action it is necessary for the representative of the branch bank to refer back to the head office for instructions as to his course of action, and a delay is occasioned by red tape which frequently makes it impossible

for them to help in an emergency, even when they have the desire.

POWERS OF THE NATIONAL BANKS RELATIVE TO BRANCH BANKING

It has been the settled ruling of the office of the Comptroller of the Currency that a national bank could not establish and maintain a branch bank, even within the limits of the city in which it is located. This interpretation of the law was upheld by an opinion of the Attorney General handed down on May 11, 1911. In this opinion, however, the Attorney General suggested that there were many business operations which a national bank might carry on outside of its banking house under its incidental powers. The opinion of 1911 was elaborated by an opinion of the Attorney General of October 3, 1923, in which it was held that although it was illegal for a national bank to establish a branch bank, it might conduct some of its routine or administrative operations, such as receiving deposits and cashing checks, at offices located at a distance from the banking house but within the same city.

BANKING EVOLUTION IN AMERICA ³

What is there about American banking which would indicate that it is in the way of a great change in organization, form and control? Is there anything fundamentally wrong in the present organization, form and control? I think not. I believe that to-day America has the best banking system in the world; the most flexible; better adapted than the banking system of any other country to the enhancement of the economic welfare of all its people. What other country can show anything

³ From an address by George W. Davison, president, Central Hanover Bank and Trust Co., New York, before the annual convention of the American Bankers Association, 1929. Reprinted in *The Commercial and Financial Chronicle*. Sec. 2. p. 75-8. October 19, 1929.

like our highly developed check system for facilitating the exchanges of its domestic trade? What a tribute to our banking system is our check system, which gives such currency to confidence.

Through all the decades and generations of banking mistake and banking failure, the periods of disordered currency, the cycles of boom, panic and depression, American banking has persistently gone forward, and taught by experience has suited itself to the demands of each new day. What is there about the record which is to account for this, and why is it that America has, as I believe it has, the best banking system at present for its needs? The answer is to be found in the one universal fact which stands out in our banking history; that our banking has been done by individual banks, locally owned and headed by responsible individuals who were free to make their own decisions and accomplish their own successes, who were intimately associated with the activities of their local communities, thoroughly acquainted with local conditions and local people and, because the ramifications and contacts of banking are endless, more or less in touch with industrial, trade and financial conditions elsewhere. I believe that it has been vital to the interests of America that our bankers have had the individual freedom of initiative and competitive action which they have enjoyed (subject to such statutory restrictions and governmental supervision as the popular will has demanded and time has shown to be wise and desirable) and I believe that it is going to be equally vital to the interests of America in the future that the largest possible amount of individual freedom of initiative and competitive action should be retained by our bankers.

The prime characteristic of American banking has been its intense individualism. This used to be true also of American enterprise in trade and industry where it is becoming less true. Reasoning by analogy is always

dangerous and never more so than in the attempts to draw analogies between the economic movement toward concentration in manufacturing and merchandising and a movement towards a similar concentration in banking. The character of the service is fundamentally and essentially different.

Your retiring President, Mr. Hazlewood, has recently contributed an article to one of our magazines pointing out that the multiplication of banks in communities successfully maintaining one bank, a too liberal chartering by both state and Federal authorities has been the primary cause of bank failures. The remedy for this lies in administration, not in legislation, nor revolutionary changes.

Nevertheless, I think that all which our multiplicity of individual banks has cost the banking community and the American people, has been a trifling price to pay for the values inherent in and the benefits derived from our individualistic banking and from the maintenance of banking freedom of initiative and competitive action. In no phase of our American life has our individualistic tradition maintained so thoroughly the free play of competition as among our banks. It is that which is primarily responsible for the adaptability shown by the American bank and the American banker to all the changing needs of new conditions and the promise of new opportunity.

One thing we must grant; that as in other economic fields all institutions, organizations, methods, practices and controls must justify themselves by persistent progress to the best results, so must our banking system justify itself. This is only another way of saying that while we believe we have now the best banking system in the world for our needs we have not attained perfection and never shall; that we must work for still better banking. That the way to better banking lies along the road of a banking system intensively concentrated to

the last degree I am not prepared to admit; indeed I am disposed to deny that better banking and huge banking consolidations which tend to reduce materially the individualism of American banking are at all synonymous. Good banking is good banking, whether in the large or in the small, and it is my firm conviction that the best possible banking can be done just as well by the banks in the sparsely settled agricultural regions as by the larger banks of the towns and the much larger banks in the cities. I believe that it is only possible for better banking to be done by banks which are individually free to improve their services as their situation permits; banks which have independent freedom of individual initiative basing their action on their own knowledge of local conditions and their own judgment of local character and credit worth and are at liberty to make their own choice of co-operative affiliations.

It is my conviction that a study of our banking history and of our banking system as it is to-day reveals the lines along which our banking individualism can be preserved. Have we need of importing the organization and practices of other lands, even if they are lands of a much older banking history than ours? I doubt it.

The statement, often heard, that we should take lessons from European banking systems and concentrate into a relatively few large banks through the country at large with manifold branches is not well founded. True, it may be wise to strengthen through consolidation and consequent stronger capital accounts within prescribed geographical limits and within localities where kindred interests assure a mutual and related benefit; but the vastness of our country with its great geographical distances and varying sectional interests, pride and prejudice, presents a problem wholly different from that of any European nation.

The branch manager of the English banks would be unacceptable to the American citizen who wishes always

to deal in banking with one whom he regards as having greater special knowledge, but his equal in other respects. Small deposits cannot here be fed directly to the great urban centers. Tribute and the feudalistic overlord have no place in American banking when the hearts of the people are consulted and any banking system not approved in the hearts of our people has no place in our present nor in our future. Great changes in system in this country rarely take place by creations at the top; they come from a determined wish in the hearts of the great body of citizenship which eventually expresses itself. We have been too long nurtured on independent doctrines to permit a final concentration of that which in its essence belongs to countless individuals, namely the deposit account.

Nor can the French system, which centers in Paris, be presented as desirable for us. The leadership of the great banks in France is blindly followed, but where is there a French farmer or local merchant akin to our farmer or local merchant, and where is our small manufacturer or investor akin to the Frenchman of equal rating who relies on Paris and unhesitating and unquestioning follows its banking dictates.

And in Germany—another wholly different picture offers. The paternal industrial bank flourishes there, a creation unknown to America until the last few years when some of our great banks have established adjuncts whereby they have taken a leading part in creating and fostering industrial enterprises. This business is one which must be done, but whether by banks of deposit or their adjuncts or by private entrepreneurs is for the future to determine. It seems certain that the banking institution which is prejudiced by its own creations cannot be the choice of the independent local banker as a depository of his reserves or his surplus funds and that the accumulations of capital represented by deposit accounts in all sections of the country which should be

maintained in as liquid a form as possible will not, without the independent local banker's consent, be used extensively in promoting industrial undertakings.

So it would seem that no European system has any real part in our banking life as a whole, although we may select from it whatever may be suited to aid or to balance our own devices or ideas. We have worked out over a long period our own banking development. It has been steadily improved and there is encouraging room for further improvement; but it has always maintained the independence of its individual parts, be they large or small, and we are not ready to surrender our independence. The larger will become larger, and, we hope, stronger. The smaller will become larger and, we hope, also stronger, but independence in the best meaning of the word and within proper local areas should be cherished and maintained. Strengthen the smaller bank, unify and consolidate within localities, foster direct dealings between clients and those bankers who have their own money at stake and take just pride in the prosperity of their surrounding territory. That, plus a close and friendly association with a reserve city bank, earned by years of affiliation, is the ideal situation.

What shall we say of the development of the holding company for the ownership of bank stocks if its avowed purpose is only to control banks throughout the country and direct their policy? Even as an interim step towards a branch banking expansion which may be legalized I believe it to be a development without promise. The banker far and wide throughout the United States cannot take kindly to the ideas which it embodies. Is it to be carried out to the point where our bankers are asked to divide themselves; on the one side those who wish to control the vast power of much money for purposes of their own, and on the other side those who cherish independence of thought and action joined to close relationships, more intensified even than in older days, with

correspondents bound together as partners in aims and ideals, who have their own money and reputations at risk and who believe in the independence of their territory and depositors? If so, it is with this latter class that we wish to align ourselves and to serve them to our utmost ability in fraternal partnership. Do we want to see banking become so monopolized that a given section shall be visualized as a source of tribute only, with its industries and merchants not regarded as individuals and with a remote control able to lay its heavy hand on local industry and trade?

I have been surprised since reaching San Francisco to learn how great a part the price of bank stocks is playing among the group and chain people. Time was, and will be again, I am confident, when it was not considered becoming in a banker to be concerned in the selling price of his bank stock, much less to be active in the market for it. On my arrival a man came to me and asked if I remembered his offering me control of the bank within a year. I did and he gleefully told me he had sold it for two and a half times the price he had offered it to a very prominent group. Another man came along and reported at once the difficulty a group had had in maintaining the price of their stock, and how much they had had to take in doing so. Within five minutes another man reported the sale of a bank for twice its previous market value. Have we here some explanation of the purpose of group and chain activity; immediate market appreciation, and little if any regard for intrinsic values, earning capacity, and the customers of the bank on whom its future must depend.

I contend that we already have in our banking system what I believe to be more than an equivalent of foreign branch banking and its development will be consistent with our traditions. Long prior to the creation of the Federal Reserve System banks throughout the country established relations with banks in the principal cities

as depositories for portions of their funds; as correspondents who could be consulted about all kinds of problems to which the depositing banks could turn for co-operation in meeting the credit requirements (and for many decades the currency requirements) of their vicinities. While the establishment and development of these correspondent bank relations began with the national banks as a direct result of the provisions of the National Bank Act for the deposit of certain percentages of reserves with banks in Reserve and Central Reserve cities, the need for these correspondent bank relations grew far beyond the needs for reserve depositories alone. Proof of what purpose these correspondent bank relations served was furnished by the action of state banking institutions which also established their position with strong correspondents, and this proof has been emphasized by the experience we have had since the Federal Reserve System began to function. One of the contemplated purposes of the framers of the Federal Reserve Act was to do away with the deposit of reserves in correspondent banks and to "keep bank funds at home." Have correspondent bank relations ended? Most certainly they have not. And why? Because correspondent banking has grown to meet needs and requirements of our banking community which have cemented correspondent and depositing bank relations almost indestructibly.

It is to correspondent banking, if I may be allowed to use a phrase which carries its own definition to all bankers, that, in studying our banking history and our banking system as it exists my thought turns for the assurances that will safeguard and preserve the individualism of American banking which I believe we all regard as indispensable to the health of the American economic future if we as bankers are to serve our people as well in the future as we and our predecessors have served them in the past. The growth of correspondent bank relations is a normal economic evolution of the individualism of

our banking. I think that the line of advance to still better banking and the provision of a complete service suited at all times to make its contribution to the realization of American opportunity and the diffusion of increasing prosperity lies in the normal evolutionary development of correspondent banking.

Branch banking, should it become legalized, may possibly give us better mechanical banking. Nobody knows better than we do that banking is not an enterprise of formulas and machinery. It is profoundly involved with the human side of life, with people engaged in the business of making a living. Let us have all of the better banking machinery that our ingenuity can devise and our judgment approve but let us not place our confidence in the perfection of banking mechanism; for if we should, our banking system would become increasingly rigid and lose the flexibility which is indispensable to the service that banks have to perform. For the preservation of that essential flexibility, I believe our correspondent banking is to be most admirably adapted.

Our correspondent banking safeguards the individual initiative and the independence of banks everywhere. It is questionable if extensive branch banking is compatible with the preservation of the values which our individualistic banking system has fostered. Correspondent banking certainly is compatible with the preservation of these values precisely because it has fostered them. I think it almost not too much to say that close relations formed by the independent banks themselves with strong institutions of their own choosing in the financial centres of the country, now more than ever, can contribute to the protection of those popular liberties which are associated with our American tradition of the independence of the individual and the right of every individual citizen to equality of opportunity. It seems to me that in these days of economic concentrating and consolidation our banking system, with its continuing achievement of increasing co-

operation by thousands and thousands of independent banks, exemplifies more than does any other form of our economic institutions the basic American idea. That idea has been illustrated in our national attitude toward other nations, governmentally interpreted and expressed. Our position in the world to-day is not one of isolation and aloofness; it is a position of entire independence of entanglements of formal alliance but of a readiness to co-operate for the advance of every essential interest of the world. This, it seems to me, has been the relation which our banks hold toward each other and toward the American public and I believe that the development of this sort of banking can go on to make the position of our banking system still more effective as an exhibition of co-operative independence.

The point which I seek to make is that we have not perceived the potentialities of correspondent banks relations and that it is imperative to perceive them and to take steps to realize them. All the separate banks in our correspondent bank groups have perhaps only a little less in the way of active relations with each other than have the branches of any one of the great banks abroad where the principal relation of the branch is, after all, to the head office. Precisely the principal relation of our depositing banks is to their correspondent banks; but is there any reason why relations cannot be cultivated between the depositing banks in a group headed up by the leadership of correspondent banks in Reserve and Central Reserve cities? I would like to have you direct your thought to the answer which should be returned to this question and in thinking of it I am sure that many things will occur to you which can be done to extend and improve correspondent bank relations so that, if I may paraphrase in part and in part quote the language of the Constitution of the New York Clearing House Association, the interests of the correspondent banking groups may be promoted and so that all banks associated in corre-

spondent bank relations may assure the "maintenance of conservative banking through wise and intelligent co-operation."

Tell us how we may all work together for such a purpose and what we, as correspondent banks, may do to help you give a more complete service to your communities. In what new ways may we co-operate with you to strengthen your own independent position? If you are adding to your service and building up trust departments, for example, can we help you out of our long and large trust experience? Can we help you to make sound loans which are the real guarantee of bank deposits? Can we help you to make sound investments and keep your investments liquid? Should there be conventions of depositing banks under the leadership of the correspondent banks with which they are associated so that out of such conventions may come closer affiliations between the depositing banks themselves? Should there be some form of conference committee in each such correspondent banking group which can act as a clearing house for the ideas and problems of members of the group? Customarily the banks which are members of the Federal Reserve System call public notice to this membership in their letterheads, their literature and their advertising. Do you or should you, as depositing banks, in the same way set forth the names of your correspondent banking institutions?

The service which correspondent banks render to their depositing banks is well known. There is ample room and a beckoning opportunity to build up stronger and closer relations of mutual helpfulness to better service by our entire banking system. Good banking has had to be done in the local communities by the banks which have established good relations with correspondents in Reserve and Central Reserve cities. The nature of the balances maintained by the depositing banks, the quality of the loans and discounts offered to the correspondent banks as excess lines or rediscounts; the way in which loans are

handled by the depositing banks ; all that goes to constitute the record of correspondent relationships makes for good banking everywhere. It certainly makes for as good banking all around as could possibly be the result of destroying the individual integrity of banks by absorbing them as branches under a distant control. So far as concerns the solidarity of the banking community, the historical relationships of correspondent banks are cemented by strong, invisible ties of loyalties and business friendship arising out of years of fair and honorable dealing and mutual confidence. What ties of branch banking can be as strong as these? What can we do to make stronger the ties which bind together men proud of their independence, their individual integrity and their freedom of action?

The relations of depositing banks to their correspondents have been a normal, natural evolution encouraged by the spirit of our banking laws and the political and economic traditions of our country. These relations have fostered the initiative and independence of our banks everywhere. The independently owned and controlled bank can do far more in serving its particular community than a bank owned by distant interests. All the knowledge and confidence derived from local contacts cannot be translated into terms understandable by some controlling authority at a remote point. I propose a resolute endeavor to make the largest possible and most effective use of correspondent bank relations and in making such an endeavor we can rest our confidence in an expectation of success on the sturdiest of foundations.

In banking nothing can take the place of the man on the ground who knows local conditions and the men with whom he is dealing and has the power to make his own decisions under a responsibility owed only to resident ownership control. Also, and I would like to stress this, we American people have a deep-seated distrust of concentrated power, especially concentrated financial power, money power. This distrust has often been latent for long

periods; but however dormant, it has been there. It was that which made it possible to destroy the First and Second Banks of the United States. It was that which less than two decades ago threw the country into the turmoil of the "Money Trust" investigation. Let us not forget that in the statute books of the nation and of the states we have laws against excessive concentration of economic power. They have been invoked in the past and can be invoked again. They can be amplified and be equipped with more iron teeth. Our annals show that the invariable accompaniment of any protracted period of economic depression is a fresh political lurch in the direction of just such legislation and a fresh invocation of its enforcement. Just now there are no signs of an impending period of economic depression but it is reasonable to expect that some day it will come. If we as the men charged with the wise administration of our banking system, because we are charged with the wise administration of our own banking institutions, should allow ourselves to be guided into courses alien to American traditions we may reckon upon hearing in such a period of depression the voice of the specious political agitator calling for "more socialized banking."

We as a people have, in the long run, and will always in the long run interpret equality of opportunity not as meaning a chance for everybody to be a hired man but as a chance for every American who has the ambition, will and ability, to become the owner of his own business, run his own show, be his own boss. I know of nothing in our national economy which seems to me to stand so signally for the preservation of equality of opportunity as our individual banking system. Individualism is being submerged in other economic fields, as it is in politics. Our banking system is the stronghold of individualism. Economically, it may yet be the last citadel.

Preservation of the individualism of American banking rests, in the last analysis, in the individual banker. He

can save his individual freedom of independent initiative only by furnishing the most complete and best possible banking service to his community in accordance with sound banking principles and wise banking policies. He can help himself to this end by availing himself of all the possibilities which correspondent banking offers, and I pledge my institution to your assistance in such a cause.

THE RELATIVE MERITS OF UNIT AND BRANCH BANKING⁴

The argument from bank failures. One of the most used is the large number of failures of rural banks since the crisis of 1920. A good many rural banks have gone under simply because the local community as a whole went under in the great collapse of land values and agricultural commodity prices. The figures were swollen, moreover, by the failure of a large number of very inadequately capitalized banks, the laws of certain states permitting banks to be organized with a capital of ten thousand dollars in small places. There is need for reform in the banking laws to make sure that all banks have adequate capital, and that all banks are large enough so that they can afford to employ men with real banking training.

Commenting on these failures, Mr. Rudolph S. Hecht, President of the Hibernia Bank and Trust Company of New Orleans, very properly remarks:

However, neither chain nor branch banking is necessarily a panacea for such conditions. Over-expansion and frozen credits can occur under one system as well as another. This is best illustrated by the fact that within the same period covered by the above statistics we had failures such as the Bankers Trust Company chain of Atlanta, which a few years ago caused eighty-three apparently independent banks in two states to close

⁴ B. M. Anderson, economist of the Chase National Bank of New York, in *The Chase Economic Bulletin*. p. 7-11. October 12, 1929.

their doors within forty-eight hours, the failure of the Home Bank of Canada with seventy-eight branches, and the practical failure and forced absorption of the Merchants Bank of Canada with 400 branches.

To Mr. Hecht's American and Canadian illustrations it would be easy to add illustrations from Europe, including the failure of a great bank with branches in Denmark (mitigated by the action of the Danish Government in guaranteeing its future obligations and continuing its activities), and the very disastrous collapse of the Banca di Sconto in Italy, with its numerous branches scattered throughout that country. We have also seen the failure of the great Banque Industrielle de Chine in China, and of several great banks with numerous branches in Japan, the latter mitigated by the Government's powerful aid. I agree thoroughly with Mr. Hecht's further proposition that:

After all, good banking is not a matter of size. A properly conducted small country bank can be as safe as a large city institution with many branches. Success in the banking field depends on good management, whether the unit be large or small. . . . However, we have reached a point in our profession where most of the deficiencies of the small town bankers can be supplied, not necessarily by making any fundamental changes in our banking system or by giving up any of the unit bankers' independence, but merely by bringing about a better spirit of co-operation and mutual helpfulness.

Branch banking vs. correspondent relations. A central point in this cooperation and mutual helpfulness to which Mr. Hecht refers is, of course, the relations between the small banks in interior places and their great city correspondent banks. The small bank cannot afford a great credit department, but from its city correspondent it can and does get abundant and adequate credit information. The small bank may not trust its own judgment in the purchase of securities, but the full resources of its city correspondent are at its disposal in this connection.

Through its city correspondent it can and does diversify its assets, purchasing safe open market commercial paper or bankers acceptances or obtaining other liquid assets.

One of the supposed advantages of country-wide branch banking is the facility with which funds can flow from regions where they are excessive to regions where they are needed. The head office, finding funds piling up in excess of local need in one part of the country, can transfer them to other parts of the country where borrowing demand is heavy. But it is an old story in American banking that precisely this same flow of funds takes place through our system of correspondent banking. Rural banks send excess funds to the money centers during their dull seasons, and during the period of their peak need for funds they borrow in the money centers.

The American system of diffusion of risks. One further point with respect to the difference between American and foreign systems is to be considered in connection with the question of how big American banks need to be to take adequate care of American businesses. The American system of commercial banking emphasizes the diffusion of risks. Commercial loans, including loans to manufacturers, are normally short loans, and "lines of credit" are normally reviewed once a year. It is a general practice, moreover, for businesses of any size to carry accounts with several banks and even with banks in several cities, and to have lines of credit and borrowing relations with several banks. This makes for diffusion of risks, and for greater liquidity of bank assets. It makes business freer from banking domination, and banks freer from business domination. The tendency in foreign countries, on the other hand, where a few large banks with branches control the banking field, is for most businesses, excluding sometimes the very largest, to have only one bank, and for the bank and the business to be tied together very closely. The business is not independent of the bank and very often the bank is not independent of the business. The American banking practice of "clean-

ing up once a year," under which the borrower is expected to be out of debt to each bank for at least a part of the time, does not obtain to anything like the same extent in these foreign countries. The bank very often cannot be paid in full without bringing the business to a close. Is it desired by those who urge that banks must be very much larger in order to take adequate care of their customers, that we shall abandon the American practice of short loans and diffusion of risks and go over to the practice of each business dealing only with one bank? The matter merits consideration before a decision is made.

Banking concentration and economic flexibility. There is a further related point upon which my own mind is quite clear. It is definitely not desirable that consolidations should go so far in the United States as to make it possible for concerted action by the banks to stop a necessary liquidation and to carry over stale positions for protracted periods. In the crisis of 1920-21, our many thousands of independent banks, by cooperative effort and by resort to the aid of the Federal Reserve Banks, were able to prevent the crisis from degenerating into a panic, and were able to go through the liquidation in an orderly manner. But they were quite unable to prevent the necessary liquidation. In a surprisingly short time we "cleaned up" the weak spots, readjusted prices and costs, absorbed our losses, brought liabilities into reasonable relation to assets, and got ready for the next upward move in business. The business tide turned in the third quarter of 1921, and the year 1922 was a year of strong recovery. In Japan, on the other hand, concerted action by a few great banks, a few great industries, and the Japanese government, choked off the crisis and the liquidation early in 1920, and the stale position unliquidated, was carried over, despite a partial liquidation, at the time of the earthquake in 1923, until the great crisis in 1927, when some great banks went under. Japan endured seven years of business stagnation in the vain effort to avert losses which our system of banking compelled us to take in 1920 and

1921. And Japan is not the only country where banking concentration has unduly delayed necessary liquidation. When many thousands of independent banks must independently meet their obligations at the clearing house every day, it is impossible to carry economic mistakes anything like so far as is possible when only a few great banks dominate the picture. In the interests of the flexibility of our economic life, we must preserve vigorous competition both in banking and in business, and we must have a large number of independent units in order to assure this.

SOCIAL IMPORTANCE OF BRANCH BANKING⁵

BRANCH BANKING MONOPOLISTIC

What, then, would be the result of such one-sided competition? Plainly enough, the independent banks would be driven out of existence. The only competition remaining would be between banks similarly situated, the larger branch banking systems. And even there the same considerations which prompted the original expansion would cause the smaller systems to be absorbed by the larger. No one would have the temerity to start independent competition. The result would be an ever narrowing circle of control over the financial structure. England possesses such an example. The history of one is being written in California today.

Assuming for the sake of argument that such a narrow circle would result, could that result be said to have the savor of monopoly? If competition between a few large branch banking systems remained, as in England, there would be no absolute monopoly. What would remain, however, would be a virtual monopoly of opportu-

⁵ From an article by Howard Whipple, formerly president, First National Bank, Turlock, Cal., in *The Bankers Magazine*. p. 646-8. April, 1923. Mr. Whipple has since become vice-president of the Bank of America in California, and has changed somewhat his attitude towards branch banking. See the *American Bankers Association Journal*. p. 99-101+. August, 1929.

ity, for only the very wealthy could enter the field of banking. What would approach an absolute monopoly would remain if the few heads of the great systems would reach an agreement and parcel out the territory among themselves.

The question arises: Would that type of monopoly be against public advantage? No doubt immense public advantage has come from large accumulations of capital. Ford automobiles are an ubiquitous example, but that analogy does not hold throughout. People can do without automobiles, but under modern conditions few can do without credit. While it is desirable that large concerns shall enjoy the large credit which benefits their size, it is more important that the more numerous small users of credit should have as easy access to the credit they are entitled to. Furthermore, it has not been necessary in the past to have branch banks, for large users of credit have obtained that credit from the large independent banks.

How could the small user of credit have it denied to him? Under ordinary circumstances a large branch banking system would no doubt provide it for him. But if, as has happened in countries using the branch bank system, it were more profitable for a branch bank having a geographical monopoly to dispose of its credit at some distant point, would a local customer get all the credit he needed? Whether he got it or not is not as important as whether or not he would have an opportunity of preventing future failures to get credit by aiding in the organization of an independent bank more amenable to local control and consideration. It is quite apparent, I believe, that he would have no opportunity.

PUBLIC DISADVANTAGE APT TO ARISE

It is in the disposal of credit—that virtual monopoly of commercial banks—that public disadvantage is apt to arise. If branch banking should become universal in America the control of local funds would pass to a dis-

tant management who would find it impossible to be in touch or in sympathy with each of the many communities which provided that management with the credit it controlled. In the very nature of man selfish rather than generous considerations would prevail.

There is another side to the question, however. There are two sorts of communities—one with a surplus, the other with a deficiency of credits. Under the branch banking system it is possible to transfer the surplus from its point of origin to the point of deficiency. It is a very pretty theory and, at first glance, no more dangerous in operation than is the act of the independent bank in loaning the surplus credit of Farmer Smith to his neighbor, Farmer Jones. But the same thing happens, without the necessity of branch banking, in the field of independent commercial banking through the operation of the Federal Reserve Banks, and in the field of investment banking through the operation of Federal and Joint Stock Land Banks, savings banks, life insurance companies and so forth. Is it, therefore, necessary to destroy equality of opportunity and thereby independent banking in order to obtain a facility of transfer of surplus credits slightly greater than that already obtained by existing means?

Furthermore, no community is entitled to any more credit than it is able to repay. The free play of economic forces prevents any gross excess of credit being dumped on any community by the system of independent banking. Under branch banking, however, greed for profit or sectional favoritism on the part of the management could readily enough cause a transfer of funds and an extension of credit beyond the ability of the community to repay it. In the end, it would be to the detriment of the community rather than to its benefit.

While the amount of credit is important to society, the manner in which it may be obtained is likewise important. It is extended in the form of commercial and capital loans. In a new country, such as the United States, owing to the lack of time necessary to have accumulated it, capital

is in demand and will be in demand until our natural resources are developed. Can any one predict when that will occur? As long as it is in demand a patron of an American bank through long custom and through future need will, at times, expect his banker to extend him commercial credit instead of capital credit for his smaller capital needs at least. The independent banker has always done so because he has had to do so in spite of the fact that his action violated all the tenets of proper commercial banking. His record has been a remarkably good one in spite of it. The rapid progress of development in America is a witness to it. But that record has only been possible because of the independent banker's intimate contact with, and his mutual interest in, his customers.

In what manner will the branch bank management extend that form of credit, if at all? Let us examine the situation. In the first place, the man who is responsible to the branch bank stockholders for their dividends is the man who establishes the policy of the bank and who directs the manner in which its branches shall extend credit. He will, also, be at the head office. He cannot be in intimate touch with the needs of the individual patrons of all his branches, so he will have to establish a common policy for all. Branch bank systems advertise uniform management. The manager of a local branch, who may be acquainted with the needs of his patrons, will not be permitted to extend credit in variance with the head office policy. What will be the result? If America is to adopt the European form of banking it will have to adopt the methods which have proved successful with Europe. That is, our branch banks will have to extend in their commercial departments that type of credit covered by strictly self-liquidating, two-name paper covering a purely commercial transaction. And the American, who does not live in exploited Europe whose capital improvements of the variety under discussion have long been completed, will not be able to help himself if he desires other-

wise. He will not because of the monopolistic nature of commercial banking.

It is true that as long as independent banks exist branch banks will have to meet the competition of their service. But if that competition should become irksome—and what competition is not irksome—the present situation in California, at least, provides means for eliminating it.

THE ELEMENT OF SECURITY

Any consideration of this subject should contain some reference to the element of security of depositors in both independent and branch banking. Statistics showing the insecurity of each form could be quoted at great length, but there is not room here. We have already seen that present laws in California permit a greater insecurity to depositors of large branch banking systems in comparison with the security enjoyed by depositors of a smaller independent country bank as far as capital requirements are concerned. It is also desirable to point out that already in California several of our largest branch bank systems now have so many branches that it is impossible for the supervising authorities to maintain a force of examiners large enough to examine all the branches of each bank at one time. If such simultaneous examinations of every branch should be abolished, worth of assets as found could probably be established, but integrity of management could not be in case it desired to conceal an improper condition. A lack of integrity of management in an independent bank could likewise be detected with difficulty on occasions. This difference exists, however. There are more numerous places to conceal an improper condition in a branch banking system than in an independent bank. On the other hand, proponents of branch banking say that the very size of branch banking systems attract to their head office men of larger caliber than independent banking can afford, particularly in the smaller places. But will the average American have his peculiar wants satisfied if only branch banks exist, whose

present-day managers, trained in the school of mutual independent banking, will have been replaced by men trained in the impersonal policies of distant head offices, to which they are very often ambitious to go?

UNDESIRABLE EFFECTS OF BANK AMALGAMATIONS IN ENGLAND *

I. *They have lead to the establishment of an excessive number of branches.* Another development for which amalgamation was responsible to no small extent, has been the rapid growth of bank offices. Only for a short period during the war was this policy not pursued, but since then, the fierce competition generated by the reduction of the banks to a very small number of large concerns (which was a direct result of speedy amalgamations) has caused an over-rapid development on these lines. This aspect of growth received comment so early as 1903, for Mr. A. S. Harvey, a notable banking authority, declared:

Indeed, so completely have the existing institutions responded to the call for branches that England as a whole, may be said to be well-nigh overbanked, while in the suburbs of London the branches of two or three well known banks compete for the accounts of the solvent trader.

. . . In so far as amalgamation has been a strong cause of branch opening, it must be regarded as assisting an economic development which has lost its beneficial character by being carried to extreme points. Not only does this result in loss to the banks, but the safety and quality of banking are effected. Over-competition tends to reduce margins beyond the limits of desirability, and sometime practicability. . .

* Sykes, Joseph. *The Amalgamation Movement in English Banking, 1825-1924*. I, p. 143-6 passim; II, p. 153-5; III, p. 157; IV, p. 157; V, p. 158-9; VI, p. 182-5 passim. The introductory sentence in each section, in italics, has been supplied by the compiler. Reprinted by permission of P. S. King and Sons, Ltd.

II. *Branch banking has removed the personal element from banking.* The objection most frequently made has been that the absorption of the private country banker has brought a change in the method of granting loans. It is shown that the private banker used to be a member of the local community, not only known by all, but knowing all. He was therefore in intimate touch with all the affairs of the district and knew its exact requirements. And he knew how much exactly he might safely advance to each individual. With this first-hand knowledge he developed sympathy with customers' requirements, and gave them loans, usually on personal reputation or without taking a legal charge. When the business was sold to a joint-stock concern the banking partner or proprietor was replaced by the manager, who in the majority of cases had passed his earlier life elsewhere. The substitute had therefore little knowledge of local conditions and peculiarities. He came, too, not with plenary powers, but simply as the salaried agent, whose position, and therefore whose salary, were dependent on the methods with which he carried out the codified system of his superiors. Instead of giving advances on personal security, he required that, wherever possible, tangible security of a high character should be produced. Land and buildings were discovered to have a strangely less value in his critical eyes than those of the private banker friend. Generally, too, the security must provide a margin over and above the loan. Lastly, before the advance could be definitely fixed, sometimes a balance sheet and detailed particulars were required by Head Office.

Had it not been that the joint-stock concerns were not so well organized in the earlier years as they are now, and that a certain amount of compromise was shown by them the change would have been drastic. Even so, there were many complaints that it was for the worse; that the introduction of security discipline was killing enterprise. Most of them stressed that the large joint-stock banks did

not apportion a sufficient part of their loans to particular industries and trades, and also, in general, that they did not lend enough. Becoming very numerous, in September, 1914, Mr. Ernest Sykes, Secretary of the Institute of Bankers, was constrained to deal with them. Writing in the *Associated Accountants' Journal* he summarized some of the remaining complaints as (1) "the banks lend too large a proportion of their funds in financing the London Money Market, and that the industrial and commercial classes are starved of the accomodation necessary for the successful carrying out of their projects." (2) "There is a general complaint that the volume of money available for borrowing by the public is restricted by the bankers, and that they do not lend enough."

III. *Branch banks tend to neglect the small borrower.* To pass to some of the disadvantages resulting from amalgamation, affecting the loaning of money, it is but necessary to mention that the number of banks having been seriously reduced, there is a tendency for banks to grant large loans to comprehensive firms and to neglect the small man. This is an almost inevitable effect of the working of the machinery of coded rules. Preference is naturally given to those who can guarantee the bank against loss by offering security, even though it be purely collateral in type. The individual who may have the ability to rise to a higher level than the normal trader, but who has no financial backing, is apt to receive less assistance than he received under the old private system.

IV. *Branch banks can not readily adapt themselves to changing conditions.* Again, trade depression—and especially a severe depression extending to many types of industry—shows one of the worst features of loans made by a few great concerns. The machine-like London control is not only slow to respond to prospective openings made by individual entrepreneurs, but its scientifically devised time-limits tend to detach some, if not all, of the support to industry just at the time when perhaps it is most needed to pass through the middle of the de-

pression before there is a definite turn for the better. And when the support is withdrawn, it is not now possible to turn to a number of other competing banks with the total number of concerns at 13, as when the number of banks was, say, 50, and especially if it is recollected that of these 13 only 5 are represented throughout the country.

V. Bank amalgamations and the establishment of branches has resulted in increased expenses and lessened profits for the banks. The discussion on these topics resulted in the conclusion that while net profits have strongly decreased over the period, expenses have correspondingly increased. Very definitely amalgamation is largely responsible for this. In the case of expenses it is apparent that the expected economies so often stressed in chairmen's speeches have not materialized, and consequently what was a strong argument in favor is actually a strong argument against the policy. Most bankers still seem to consider that more economies than diseconomies have resulted, and consequently do not seem to be alive to the results of their actions. From the point of view of the community this results in direct loss, for the charges are finally borne by individual customers in the shape of reduced deposit rates and increased loan rates. With the lowering of the deposit rate to 2 per cent instead of $1\frac{1}{2}$ per cent below bank rate in 1921, already a proportion of the extra expense has been passed on to the public, and it is likely that if further amalgamations occur, expenses and therefore charges will again be increased.

VI. The branch banking system prevents employees from developing into thoroughly trained and experienced bankers and reduces their chances for advancement. This severing of the personal link which existed formerly in smaller banks has important effects on smooth working which at first sight do not seem so important as actually they are. The departmental method of organisation tends too to impair efficiency because of the specialized training it involves, and in time it will inevitably create

the problem of supplying a pronounced shortage in thoroughly well-trained bankers—instead of department heads. Amalgamation has therefore created some very large problems of organisation the present solutions of which do not approach in satisfaction the conditions prevailing under the pre-amalgamation system. Related to this aspect of administration is the question of the effect of amalgamations on the actual work done by the staffs. The creation of large banks (especially in London and large provincial centres) has induced an overspecialization of work—as just cited. This means that one clerk is required to perform what is more or less repetition work in the particular department to which he or she is attached. Such work is monotonous in character and does not necessitate the use of the higher faculties. The advantages of education and ability and initiative are therefore seldom called for, with the effect that lack of interest and a diminished sense of responsibility result. Since much bank work now partakes of this nature, and since it is generally asserted that the reduction of banks has reduced the opportunities of securing promotion, a spirit of unrest is generated which has been especially in evidence during the last few years.

AND THEN—HE WENT TO THE PAWNSHOP¹

SCENE: *Community Branch of Consolidated
First National Banks of America.*

TIME: 10:30 A M

PLACE: Chicago.

CHARACTERS

John P. Collingwood, Manager, Branch Bank;
H. D. Bonner, President, S. & A. Manufacturing
Company; A Reporter.

“Then you won’t let me have the money?” H. D. Bonner, president of the S. & A. Manufacturing Com-

¹ An article by E. E. Troxell in *Sales Management*. p. 911-12+. November 27, 1926.

pany made no effort to conceal his surprise. "I have been a depositor here for a long time. As a matter of fact, I opened a savings account with this bank right after I got my first job nearly twenty-five years ago and when I started this business I brought our account to you."

"Yes, I know that, H. D. I would give you this line of credit if I could."

"Well, what's the matter, then?" Bonner asked with some heat. "Hasn't my balance been satisfactory? I thought I was a pretty good customer of yours. This is the first time I have ever asked for accommodation, and you will find that in the five years my company has had an account here my balance has been steadily increasing. I have always discounted my bills, and I don't owe a dime that I couldn't pay today without embarrassment. We have grown slowly, and have been very conservative. Now I need \$30,000 to finance this special sales drive on our new machine. This machine is right, and so are our terms and our prices. The market is absolutely there. I know it. I wouldn't go into it if I weren't certain. Half of this loan will be paid off in less than sixty days, and the remainder will not run more than an additional ninety days. What's wrong? If I have made a mistake I want to know it."

"There is nothing wrong," the banker explained. "As a matter of fact, I think it is a good loan."

"Then why in the hell don't I get the money!"

"It is against the rules. Our loan policies are determined by the discount committee at the home office in New York. These policies are based on the general condition of the bank as a whole, on the experience the bank has had with various types of paper and with various kinds of companies. I admit frankly that I do not know why orders have been issued to withhold accommodation to machine tool manufacturers. Perhaps some branch made a loan of this sort, and it went bad. Perhaps they regard the machine tool business as a generally unsafe risk. Perhaps they have already got as much paper of

this kind in their portfolio as they want to carry. Or it may be that they have to reduce their loans and build up their reserves. Anyway, the bank says that loans of this kind must be refused. So I am powerless. I would make an exception in your case if I could. You ought to know that, H. D."

"Yes, I guess you would, John." The manufacturer smoked thoughtfully. "If I had assets of \$5,000,000 instead of \$100,000 and wanted \$2,000,000 instead of this measly \$30,000, I expect your loans and discounts committee would be glad to see me."

"Yes," the banker nodded, "I expect they would."

"But if I was to go down to New York for this \$30,000, do you think I would get a hearing?"

"Well, this bank advertises 'service to its depositors.' It claims to be a friendly, human bank, managed by officials of wide experience in both business and finance. That is what they publicly urge you to do."

"I'm asking you what you think—not what this bank advertises. I read the papers, too."

"It is against the rules for me to tell you what I think, H. D.," Collinwood replied. "But strictly between ourselves—if you went to New York you might get to see as important an official as the third assistant vice-president in charge of Chicago branches. And he would tell you just what I have told you. If you insisted he might agree to lay your case before his vice-president, who might agree to present it to the committee. They would apply the rule made for this class of business, and send back word that 'the bank, at this time, is not making any more loans of this character.' I don't think it would get you a thing."

"This branch banking hasn't worked out so well for the little fellow, has it?" John Bonner remarked. "I can remember when it started. It was my first year out of Tech, and I was selling lathes for Amos Martin—remember old Amos? He made the best machines that

were ever put on the market and managed his business the worst. Later on, when I came in as his assistant, I used to think we were working for the bank. We were generally in debt to them. Ike Macintosh, the president, used to call us over, now and then, and lay down the law. We would get busy and clean up the account. But when we needed money we always got it. I used to think Ike was about as poor a banker as Amos was a business manager, but they both seemed to make money. When they came along with this branch bank scheme, and told the world that with larger banks business would not only be able to obtain money on more favorable terms, but would also always have the benefit of the advice and experience of the ablest men in the field, I fell for it.

"Yes, it certainly sounded good," Bonner mused. "They told us about the efficiency of the English system and the German. By concentrating credit these countries were able to capture world markets, keep business prosperous, and use their banking resources for the benefit of the whole nation. It certainly sounded good, coming as it did at a time when competition was keen, and there were as many bad years as there were good ones. I fell hard.

"But it hasn't worked out so well. We little fellows don't see any welcome sign over the door when we come to borrow. The old system might have had its defects, but it was good for the small man. Ike Macintosh never had any third or fourth assistant to see. If I wanted to talk to him I went over to his bank and talked to him. Ike may not have been a great banker, but he certainly helped Amos Barnes out of a lot of tight holes.

"Much obliged for the advice anyway, John. Guess I will have to borrow the money from Goldstein & Company. Cost me more than I ought to pay, but I can't afford to pass up this chance."

"Well, I'm sorry," Collinwood said. "If this were my bank, I would be only too glad to loan you \$30,000. But as manager of this branch, I must follow instructions. If they ever make a new rule I will let you know."

When Bonner had gone the banker turned again to a reporter with whom he had been talking when the manufacturer came in.

"When you came in a few minutes ago," Collinwood began, "you said you wanted a story for your publication. Well there is your story—if your publication dares to run it. Right here in this bank, in five minutes, you saw enacted the whole history of branch banking."

"I don't follow you, Mr. Collinwood," the reporter answered.

"You saw a small business man ask the branch manager of a big bank for a loan, and heard the banker refuse it because it is against the rules to make a loan. There was no question of the man's ability or integrity. There was no consideration given to the fact that he had been a customer here all his life. There was no thought about whether it was a good loan. The whole transaction is the matter of the application of a rule, laid down by a committee that never saw this branch, knows nothing of this man, and has no interest in this particular community other than the profits they make out of its deposits in this local office. When branch banking came in, the golden age of little business was over. Big business and big banking go hand in hand."

"Always?" asked the reporter.

"That has been the history of every country that has permitted branch banking. Five big banks in England have for twenty-five years controlled the commercial banking business of that country. When this branch banking movement started, Canada had only thirteen banks, and some of these have since been consolidated. Branch banking inevitably results in the consolidation and concentration in one or two financial centers of all

your banking resources just as it has in this country. And when that happens, little business is without credit. Successful small business establishments are scarce in Canada, a country similar to ours, rare in England and don't exist in Germany or any other continental country where branch banking is thoroughly established. Little banks take care of little business, big banks of big business.

"Why can't you operate this branch in exactly the same way that you used to when it was a small independent community bank?" the reporter asked.

"This bank has more than 4,000 branches in towns ranging from 5,000 to 5,000,000 population, and located in every part of the United States. Suppose that every manager operated his branch to suit himself? Don't you see that chaos would result? In a large bank of this sort, the same as in every other large business, there must be one policy, one manager, and systematized, standardized procedure. It is the only way you can operate a big institution."

SEE PAGE 1, RULE 1

"Like everything else banking has become a rule-of-thumb business, eh?" observed the reporter.

"Branch banking is standardized banking in its most perfect form. The head office sets up the standards and lays down the rules. The branch manager applies them. There are no exceptions and no deviations for the sake of the customer or a friend. It is all as rigid and inflexible and, I often think, even more unsatisfactory than was our extremely inefficient national banking system, in existence before we got the Federal Reserve banks."

H. P. Collinwood paused, and, half turning, looked for a minute out over the room that had once been his bank.

"I started this bank here thirty-five years ago," he said, not without pride. "As perhaps you know the Collinwoods were a banking family. My grandfather,

my father, and my two brothers were all bankers. You might say that I grew up in this business. It was a kind of family tradition that the oldest son would succeed to the home bank, and the others, after a few years' experience, would get out and start a bank of their own.

"When I started this bank out here, this community had just started to develop into a local business district. There were a few small manufacturers, one or two printing concerns, several merchants, and a few professional men. Most of these people were stockholders, and my board of directors was made up of the leading men of the community. I wanted the people in the neighborhood to feel that this bank was their bank—an institution that was here primarily to render them helpful, friendly financial service.

"Don't misunderstand me." Mr. Collinwood passed the reporter a cigar, carefully cut the end of one for himself, and as carefully lighted it. His actions, like his speech, were deliberate and thoughtful. "I ran this bank to make money, and," (there was the pride of conscious achievement in his voice) "when this branch bank movement started back in 1925 and 1926, this was one of the largest and most profitable community banks in Chicago. Perhaps that is why I am one of the very few old school bankers you will still find in charge of the institutions that were absorbed by the chains," he added dryly.

OLD-STYLE BANKING PRACTICES

"But," he resumed, "making money was not our first consideration. "Our depositors and our customers were first. The business life of this community, and the success and prosperity of its business and professional men were in large measure dependent on us. If we gave them accommodation when they needed it, helped them with sound counsel, carried them when times were bad, and credit hard to obtain, they prospered.

"Banking was more human twenty-five years ago. If a young fellow had a good record with us, had proved

his ability, and needed money to get started, we let him have it. And we carried him along until he got his business on its feet. There were once a dozen prosperous small manufacturing firms in this community that started in just that way. Now they are all gone—either failed or been absorbed by the big companies.”

“That was pretty risky banking wasn’t it, Mr. Collinwood?”

“By branch bank standards, very risky,” Collinwood admitted. “But we considered it our safest business. In ten years’ experience as an independent banker, I never had such a loan go bad. J. P. Morgan, the founder of that great firm, is credited with the statement that ‘character is the basis of credit.’ And that was what we loaned on—character. Of course, I knew all these young men personally. I lived on the same street with some of them, played golf with others, served on civic and commercial club committees with still others. Our business relations were on a man to man basis.

THE “SUBMERGED TENTH”

“Now that is the same basis on which business is still done at the home office. But it is the big business man that serves on committees and plays golf with our executive officers. It is, therefore, only natural that they come first when loan policies are made. The little fellow, now, has no opportunity to become acquainted with the men who pass on loans. So his application for credit is treated impersonally. If it does not meet all requirements, is in any way irregular or comes at a time when caution and conservatism is thought to be necessary, he gets no accommodation.”

“But the big man always gets taken care of?” the reporter asked.

“His business is more profitable. It costs little more to make and take care of a \$1,000,000 loan than it does one of \$25,000. And if the borrower is big enough, he

will not fail. The banks won't let him. So the big ones thrive and prosper, while the little business institutions, under a system of branch banking, gradually disappear.

"I am not saying that branch banking is entirely bad," concluded the banker. "It undoubtedly does give a country bigger and safer banks. It facilitates the movement of gold and the control of credit in times of emergency. It encourages the development of large-scale industry, and keeps out competition. On the other hand, it tends to eliminate the small business, and it certainly makes it more difficult for a man to get in business for himself. Branch banking is a poor system for a country that wants a factory in every town, and believes in the principle of free and unlimited economic opportunity."

BRANCH BANKING AND THE SMALL BORROWER^a

It is purpose of this article to discuss:

How the branch banking system affects the small borrower in making loans with and without collateral; and in making loans on real estate.

How the system affects the service the small borrower receives.

How the small independent community is affected by the operation of a centralized banking system. What the small borrower may be led to expect from branch managers in the way of co-operation.

LOANS MADE WITHOUT COLLATERAL

Let us first take for consideration the question of loans made without collateral. A small local baker, we will say, wants a loan of \$2,500; he makes out his statement and comes into a branch bank to negotiate the loan.

^a From an article by M. D. Miller, manager, new business department, Lake Shore Trust and Savings Bank, Chicago, in *The Bankers Magazine*. p. 19-22, July, 1924.

As is usually the case, his statement will not be an audited one. The branch manager, we will say, has a speaking acquaintance with the applicant, but, owing to the great demands upon his time, has never been through the plant.

Now the question is asked, "What is the procedure in considering the applicant for this line of credit?"

The customary credit letters are sent out and the matter goes up to the central discount committee. Of course since the baker has only a small business he is, we will presume, unknown to the parent bank discount committee, and as a result will not get overmuch consideration. "Why?" you ask. Because, as the statement is not an extra good one, the committee will feel that the cost of making this loan, considering the time spent in further investigating the client, and that the balance he will be able to give the bank will be small, will not make it a profitable proposition from the bank's point of view. Why bother, then, to make the loan?

From the small community bank, operating under low overhead cost, the officials of the bank having possibly been brought up in the same neighborhood with the baker, he would get more consideration.

Such a bank would have checkings covering years of experiences with their client and could safely grant the credit, doing so on a profitable basis. The baker would have an opportunity to "sell" his personality to his banker, which he would not be able to do in the same way had he to deal with the manager of a branch bank.

Now take the matter of loans on collateral. An experienced banker knows that in matters of loans, on collateral especially, when money is tight they are made by preference. By that I mean the man who has carried the big balances, who is the strong man, financially independent, is going to get the preference. It is for this reason that, under the branch banking system where loans are passed up to the central bank for consideration,

there will be naturally a tendency to overlook the small borrower.

In the case of the small borrower coming into the small community bank when money is tight, as the bank gets its deposits from the community it serves and has no strings tied to it from a stronger central banking institution, it makes its collateral loans where it feels justified. The result would be that the little business man would not be told that the bank was all loaned up, as he well might be in the case of a branch bank, which has heavy demands for its deposits coming from the parent bank.

THE SMALL BORROWER AND REAL ESTATE LOANS

Now let us take up the matter of how the branch banking system will affect the small borrower in relation to real estate loans.

Often the small local merchant needs money in a hurry and comes into the community bank to ask for a loan on his place of business, represented by a factory plot and plant. The branch manager gives him his real estate application loan blank to fill out, and then sends up the loan to the real estate loan department of the parent bank for consideration. What happens, you ask? Owing to the large number of loans and real estate deals pending, it will probably be ten days before the little merchant will know whether or not he is to receive the loan. Frequently he will find that the wheels of the huge branch banking machines, while just, are so slow that the assistance wanted comes too late, and he finds himself financially embarrassed.

When the small business man enters the independent unit bank in his community, he calls on the president. "Hello, George," says the merchant, "how are chances of a loan on the plant?" The president, familiar with most of the property in the community, having lived there about all his life, and who possibly may have gone

to school with the applicant for credit, can answer almost immediately. The result is that the small borrower gets quick action, when he needs it most. The loan is judiciously made, owing to the president's familiarity with real estate values in the community, which he has obtained by practical personal experience through many years' residence. The small business man thus finds it easier to make his real estate loans in the unit banks, and finds over a long period that he will get more consideration from an institution which has grown up, and whose officers have been brought up, in the community which they are trying to serve.

DO BRANCH BANKS GIVE BETTER SERVICE?

One of the slogans used by the branch banking interests is "Branch Banking Brings Better Service." It is claimed that, with the parent organization back of the branch, credit information, statistical information and investment service will be superior to that which the small community bank is in a position to give.

First of all, how about credit information requirements relative to the small borrower? What are his requirements? More than likely they are small, and local in their character. The community banker, often a man who has been selected by reason of his broad knowledge of financial conditions existing in his neighborhood, is in a far better position to care for the local needs of his clients than is the branch manager, who may have been sent as a stranger into the community, having no special knowledge of the character of the inhabitants, their habits of life, or their financial standing.

The business activities of local merchants, more than likely, center around the particular community which it is desired to serve. For this reason there are few requirements of either a credit or a statistical nature that the small, separate banking institution cannot take care of adequately. While it is granted that a large parent

organization has a far superior statistical department, what good does this do the local blacksmith or candlestick maker, who is in a hurry for facts, say, concerning some investment. Can he wait until the branch manager writes to headquarters for the information? He cannot! If the statistical and credit files of the parent bank are to be of value to the small borrower they must be close to him, for as a busy merchant he has not the time to stay away from his business establishment long enough to go to the central banking headquarters to get what he wants. Is it not reasonable to believe, under these circumstances, that branch banking, from the point of view of service, does not hold forth all that one might be led to believe on first consideration?

From the standpoint of financial backing and personnel, branch banking has also little to offer the small borrower. What good does it do the small merchant to deposit with a branch of some large institution, merely because of its strong resources, if it means a banking system which is so inelastic as to prove a hindrance when quick, personal service in credit extension is at a premium? Of what real avail is a branch manager to a small business man, when he is shorn of his banking prerogatives regarding discretionary financial matters which are of real moment to the local merchant?

THE ATTITUDE OF THE BRANCH MANAGER

The mere fact that a community is being given only a branch bank manager to look after its financial requirements, would indicate that he would not be a banker of the highest caliber, and one who would be big and broad enough to see the problems of the community as a whole. Why should he, as a local branch manager, be expected to understand the intricacies and financial difficulties of a community in which he is a stranger? At best, would not his effort at sympathetic understanding be impersonal and superficial, when one stops to consider that,

shorn of any real financial power, he comes, a stranger, into a new neighborhood for which he has no particular regard?

The impersonal element in banking, which is characterized by branch banking, must needs give place to demands for a banking service which is outstanding for its practical and educational values, in harmony with the growing spirit of democracy which calls for a broad range of facilities which embrace the entire field of communal activities.

If it is true that the type of man who starts a bank in a small community is essentially constructive, his natural sympathies and associations will tend to be with men of constructive type, and consequently he will co-operate with them in the upbuilding of the community. In place of the monopolistic tendencies which one might expect from the operation of the branch bank system, one finds an independent banking unit extending its support to young, aggressive, and enterprising individuals, who will grow with the bank with the passing of time, and as they develop will help build up the institution with their deposits.

THE MERITS OF THE UNIT BANK⁹

Small bank failures did not appreciably cause bad business conditions. It was bad business that caused the bank failures throughout the country. If we concede that some banks were poorly managed they were, as a whole, so much better managed than general business that business becomes submerged in comparison, and without the small banks there would have been no such volume of business as did take place. Business should be patient while rehabilitation is going on among small banks and lean to the thought that the worst is about

⁹ From an article by W. D. Selder in *The Commercial and Financial Chronicle*. p. 3827. June 23, 1928.

over so far as absolute failures are concerned. The unfit have always periodically eliminated themselves. Each generation produces its near-financiers and over-confident speculators that must settle or default and start a new cycle or, the same thing under a different name, whatever it is that a mob movement actuates.

We can safely banish all suggestions that the constructive forces of the country and its individual banks are fundamentally defective, for certainly this country and its individual banking system outrank any in the world. We will, as we always have, attain a normal condition in time, but let no one think it will not require work, patience, and economy. Debts can be paid in no other way, nor faster under any other system of banking.

The superior service of scattered individual banks, absolutely independent in their affiliations, opens wide the doors and practically guarantees to business that a major financial disturbance cannot be precipitated by primary banking. Serious disturbances are brought about through other influences not even remotely founded on the occasional failures of small banks. If there was ever any force in the argument that there is strength in a multitude, here is the place to set it up.

A unified predilection for branch banks, to supplant individual banks, will not be found current among the people anywhere. The motive springs solely from the ambitions of a few aggressive bankers determined to establish units for the growth and expansion of their institutions. Whether wanted or not, they covet the business.

With all of the facts at the disposal of business it would seem there should be a rally of support with briefs demanding the continuation of our present system of individual banks to the exclusion and prohibition of any invasion of their fields by branch bank systems.

UNIT BANKING SYSTEM HAS
NOT BROKEN DOWN¹⁰

The second point urged against the present system of unit banking system is that the unit banking system has broken down and is not furnishing adequate banking facilities to smaller banking communities, especially in the agricultural sections. I do not subscribe to this view of the situation. Our unit banking system has not failed and is not breaking down but is making vast strides keeping pace with the rapid development of the country in general and with other business organization. As proof of the failure of the unit system the Comptroller has submitted figures showing 5,640 bank failures in the United States since 1920, the deposits in these failed banks amounting to \$1,700,000,000 and the number of depositors suffering losses in these institutions numbering 7,264,957. These are large and imposing figures and are likely to create the impression that unit banking is more hazardous than it really is. As a matter of fact the banking business in this country is the safest business, for the safety of the creditors, that we have, and as a matter of fact it should be the safest business we have.

Mr. Pole further states that the recovery to depositors of failed national banks equals 80 per cent; in other words, the loss was 20 per cent.

One billion seven hundred million, the amount of all deposits in all the banks that failed during the last nine years divided by 7,264,957, the number of depositors, equals \$234 as the average deposit of each customer in all of these failed banks. Each depositor recovered 80 per cent of this \$234, which is \$187.20, which subtracted from \$234 leaves a loss to each depositor of \$46.80. Not a bad loss to the banking public during the nine-year period following the deflation beginning in 1920.

¹⁰ From statement of C. G. Shull, commissioner of banking, State of Oklahoma. *Hearings*. Op. cit. v. 2. pt. 12. p. 1572.

Risk cannot be eliminated from business, and banking is no exception to that rule. Please do not misunderstand that I look lightly upon bank failures and their results. I deplore them as much as any member of this committee and as much as the comptroller himself, but I do know the bad results have been greatly exaggerated and I do know the people of this country lost many times as much money by reason of investments in land and in stocks of various kinds, and while I do not have the figures and do not know that they are available, I am inclined to think that very comparable losses were occasioned by investments in Liberty bonds, direct obligations of our great country, by reason of having paid par for these bonds and having to sell them as low as 82 and 83 cents on the dollar. The loss to many purchasers of Liberty bonds amounted to \$18 for each \$100 invested and the depositors in the failed banks of this country during the last nine years have lost \$20 for each \$100 of deposits in those banks.

We must not lose sight of the fact that for several years prior to 1920 we were operating under an unusual and unprecedented period of inflation. Beginning in 1920 and thereafter we were operating during a period of unusual and unprecedented deflation and great losses were inevitable in all lines of business. As stated above, we know that many, many purchasers of Liberty bonds, the obligations of this great Government of ours, lost a great deal of money, yet I have heard no one suggest that we change our form of government to correspond to that of Canada, England, France, or other countries.

UNIT BANKING PREFERABLE ¹¹

Fortunately, for the one manager of a bank that is incompetent there are a hundred who fully deserve the

¹¹ From an article by Craig B. Hazlewood, former president of the American Bankers Association and vice-president, First National Bank of Chicago, in the *American Bankers Association Journal*. p. 3. July, 1929.

confidence that is placed in them. This being the case, and in view of the very great natural advantages of the locally owned and managed institution, I am a strong believer in the desirability of retaining our unit banking system.

Apparently there are an increasing number of advocates for country-wide branch banking in the United States. Some of these advocates are in high places. I cannot bring myself to the belief, however, that the mal-administration of a few unit bankers is sufficient reason for throwing over the banking system that unquestionably contributed a large part to the prosperity of this country, and substituting in its place a system under which bank policies are set up in a book of rules, without opportunity for broad judgment and business building liberality. There are many bankers who are good "no" bankers. They never make any losses because they always say no. On the other hand, they make no progress. Branch managers, if they would be in the highest favor at the home office, must be "no" bankers.

The sum of the advantages lies with the unit banking system; one has only to visit the two cities of Seattle, Wash., and Vancouver, B. C., to see the difference very clearly. The branch banking idea may be logically applicable in larger cities, where close conference is possible, but I am of the opinion that the development of the outlying districts of Chicago, for example, has been better done with the aid of independent banks than it would have been with the branches of our downtown institutions.

OPERATING COSTS NOT REDUCED¹²

Perhaps the most frequent justification of proposed mergers is that economies of operation will result. The

¹² From an article by Willard L. Throp, professor of economics, Amherst College, in the *American Bankers Association Journal*. p. 109+. August, 1929. While the article is concerned with bank mergers or consolidations rather than with multiple banking, it is fully applicable to the latter.

phrase "economies of large scale production" is familiar to everyone. And there can be no question but that there are many potential economies present in operation on a large scale which small firms cannot enjoy. Yet it is often forgotten that on the other hand there are certain less tangible costs which result from the very fact of size. It still remains to be proved that, in most manufacturing lines, the potential economies are net economies. Available statistics indicate that, more often than not, the small concern operates at a lower cost than the large. The most successful mergers today in manufacturing are mostly those where some gain can be made in large scale marketing and distribution.

Probably the most expert cost accountant could not answer this question with regard to banks. He could not fairly compare large and small banks because the types of business and nature of customers would vary so widely. Nor could costs before and after the merger be used as a basis of comparison. The immediate result of mergers is usually increased costs. Considerable reorganization is necessary. Old habits hamper the new concern. Often times as much as three years must elapse before the new concern is actually functioning efficiently.

But no elaborate cost study is required to arrive at certain tentative conclusions concerning the effect of bank mergers on bank costs. By far the most important element in banking cost is interest paid. This would certainly not be reduced by combination. The items which might be reduced, the actual operating cost, are but a fraction of the total. Here reduction would doubtless take place if the banks merging had been so small that the employees could not specialize on specific tasks. But if the consolidating banks are large, they have probably already reached the point where all economies from division of labor have been obtained. Such a merger might result in increased cost due to sheer size, with its

tendency toward lack of interest among employees, increased need for supervision, and the increased number of accounts, files, and the like. Certainly, the uncertain reductions in operating cost do not represent a significant element in the analysis of bank mergers.

BUSINESS MEN PREFER UNIT BANKS ¹³

The Illinois Bankers Association, through its Secretary, Mr. Graetinger, has recently put out a brief questionnaire to perhaps 1000 well-rated business houses, selected by count to give a typical cross-section of the Dun or Bradstreet list in parts of the United States where one or another type of chain banking is already an issue. . . The mailing went into the Middle West, the Northwest, the Central States, and the Southeast. Response was almost exactly 30 per cent of the mailings—a good yield as questionnaires go, but scarcely adequate in view of the heat the group banking idea is supposed to have generated. [The replies showed that] 75 per cent [of the business men] favor local ownership and give the following as their reasons:

1. Directors of consolidated banks will formulate rules under which money may be loaned. This may stop loans to people of small means but good pay, and so seriously injure their business, the community and country at large.

2. Group banks seem to be unfriendly to the small town business man. Extensive cooperation is lacking.

3. A big central bank may strengthen the smaller units in times of prosperity, but will strangle the business of the community when adversity hits.

4. The ninety-day policy of branch banking is not acceptable to farmers whose income is received semi-annually.

5. Dangerously concentrates control of credit.

¹³ From an article by C. D. Murphy in *Bankers Monthly*, p. 26+. June, 1930.

6. Local money will be transferred where the investments look the most favorable regardless of the local demand. Earning power is the only music to the ears of the holding company.

BANK HOLDING COMPANIES, CHAINS AND BRANCHES ¹⁴

Outside of a few isolated and peculiar communities having "marketing associations" that use larger credits than the local banks can supply, as in the citrus fruit districts of California, is there a single community in a normal productive state in the Union that is asking for a branch bank or for a system of branch banking? Is there a single community that, once awake to the perils of displacement of their locally owned banks, will sit idly by and allow the natural credit and capital in their own control to become disciplined if not destroyed by financial forces alien and remote?

What started, or who started, this evident agitation in favor of branch banking? For it all amounts to the same thing in principle, whether by means of holding companies, chains or nation-wide branches. Attention has already been called to the possible effect being to produce a system of "over-banking." For when the bars are down, what will prevent a score of large city banks from competing in the same territory? And since consolidation is the order of the day, what will prevent the ultimatum of half a dozen banks, each with hundreds of branches, from controlling the credit of the country? Where will the small merchant, the small farmer, go for his needed few hundred dollars of credit,—to the "office" or branch of a remote bank working by set rules and about as sympathetic to the man himself as the famous Shylock demanding his pound of flesh nearest the heart?

¹⁴ From an editorial in *The Commercial and Financial Chronicle*. p. 1643.
4. September 14, 1929.

We feel that the consolidation of our great city banks into larger integers is consonant with the growth of corporations, industrial and financial, that must now cover larger domestic territory, supply increasing consumption demand, and follow foreign trade to foreign shores. But this has nothing to do with branch banking—the setting up of petty finance offices in every town and village to annoy, hamper and undermine established local banks, that are part and parcel of the communities they serve. Personal ambitions to create an inter-locking chain of banks to swell deposits and drown out natural competition, aye, to exchange stocks in a holding company for active stocks in small going banks, is not, in our view, a rational cause for this radical change in our banking affairs. The influence comes from the wrong direction and detracts from the liberties of the people.

More than this, to encourage, by bolstering legislation, an unnatural rivalry between our state and national banks, as at present constituted, is to place all our banks in the toils of government. One might foresee as a possible outcome a United States bank with branches at every crossroads, certain to become the football of politics and the tyrannical ruler of the citizenry. But putting that aside, in the battle likely to ensue between the states and the nation for the control of the new banking system, the states would be overpowered, and banking would become a function of the Federal Government. It is time to stress the fundamental nature of the banking business, which is nothing less than dealing in credits, whether under state or national charter. The national banks as now established do not have to have branches in order to hold their own. Nor do our state banks have to establish chains and branches to continue in their long-time service of the people. Because branches are set up, does not compel their patronage.

To make this thought more specific, let us say that there is in our country no real background for these

chains and branches in banking. Holding companies themselves are in an experimental stage. They may become the subject of drastic legislation. And unless we are to establish a condition which will no longer allow free and independent small banks to exist as original dealers in credits, there is no assurance that these chains and branches will pay. For as fast as one country bank is absorbed another may be organized in the same locality. The people may not "take" to the methods of the branches, and in any event our finances are undergoing a change that may lead in another direction. There seems to be, in many lines of business, almost a craze for consolidation. This may work all right on an upward trend of so-called prosperity, but when prices fall, when stocks become inert, when dividends cease, in a period of continued downward trend, the small business and the small bank may become the especial pride of the community.

Our main purpose, however, is to consider the principle involved in these proposed banking changes. It may be readily believed, we think, that in case chains and branches actually overrun the country there may be national legislation that will in the end destroy our free banks. In doing this, the free issuance of credit through free commercial transactions will be crimped and cabined, taking away the free initiative and enterprise of the people on which, heretofore, has rested our progress. When no longer a small business can develop on natural lines into a large one we shall have lost the chief glory of individual commercial life. It is not altogether the bigness that counts for personal and particular service; it is the skill and acumen which blaze out new benefits. When the small man can no longer go to the small bank for sympathetic co-operation, one of the greatest privileges and benefits will have disappeared from our financial life.

LARGER BANKS NOT NECESSARY TO MEET DEMANDS OF BUSINESS¹⁵

Even if future developments in the industrial and commercial world are such as to produce larger units than now exist, after a point it is clear that nothing tangible will be gained by similar moves in the banking field. For the argument, referred to by the Bank Amalgamations Committee, that even in the improbable circumstances that the present-day banks do not possess sufficient resources to undertake loans of the sizes which may be demanded, still has validity—i.e. recourse may be had to more than one bank. Indeed this method would probably be the safer of the two, since the risks would be spread between two or more concerns, each of which pursued its own individual policy (and this almost certainly would vary from that pursued by its competitors), instead of being concentrated on one firm with one policy alone. Again, it must be remembered that the size of the bank-unit which conduces to the most economical and efficient working, by reason of the specialized nature of banking operations, is not so large as corresponding efficient and economical trading units, owing to the different nature of their functions.

THE FEDERAL RESERVE SYSTEM AND BRANCH BANKING¹⁶

And whether nationwide branch banking is to follow or not, whether soon or late, the issue has a direct and tremendous bearing on the Federal Reserve System. Some bankers believe that though full branch banking come, it will not wholly destroy our individual, unit, independent

¹⁵ Sykes, Joseph. *The Almagamation Movement in English Banking, 1825-1924*. p. 166. Reprinted by permission of P. S. King and Sons, Ltd.

¹⁶ From an editorial in *The Commercial and Financial Chronicle*. p. 2134-5. October 5, 1929.

banks, and will never attain the relative proportions that obtain in England and Scotland. Be this as it may, the Federal Reserve System is based on the regional union in a regional bank of all national banks in a given territory, banks of all kinds in capital, resources and services. Comptroller of the Currency Pole has indicated in his address this week at the meeting of the American Bankers' Association that he inclines towards regional branch banking. But the officers of our regional Reserve Banks are elected by a peculiar system of voting in which all member banks participate. If, then, with the advent of branch banking the independent free country bank is to disappear and a few huge city banks with hundreds of branches are to dominate the situation, it is difficult to see how the regional bank can persist and function.

It is hard to perceive what a Reserve Bank will be and become when it is the creature, in its capital and management, of a half a dozen huge city banks that not only use it as a source of emergency currency and credit, but virtually hold it in their hands to do with as they please. It cannot be imagined that these hundreds of branches will be admitted to the system as member banks. And unless there is somehow a balance of power between the member banks in a region, or in the country at large, the Reserve System, if it can continue to exist, will only serve to rivet the chains of financial serfdom on the people of the country. In such an event the Federal Reserve Board, shaping the policies of the regional banks, if as we say such can continue, will become more powerful and tyrannical than was the first or second of the United States Banks that once existed, and were swept down by a political convulsion. We do not say that branch banking, through the creation of a few colossal banks, will utterly destroy the Federal Reserve System, but it will change the whole condition of free credits in this country.

Nothing can keep a great centralized government bank out of politics; and nothing will sooner wreck the credit

of a republican form of government in its freedom to serve the people than government banking control. What will become of the American Bankers' Association itself when its thousands of free, independent members give way before the agents of a few banks located in the financial centers? Under a full-fledged branch banking system this useful institution, the A. B. A., will be a dead duck! There is so much dynamite in this question, that no matter what the consensus of opinion may be among bankers themselves, it is sure to engage the attention of Congress, and sooner or later arouse the people, and thus enter politics. There is only one way to prevent this consummation, and that is to preserve the unit, free and independent bank. And in that it may devolve upon the thousands of communities in the land to perpetuate by their patronage these natural fountains of indigenous credit. Thus the mere village bank of insignificant capital may be more important to the *laissez faire* of business and the freedom of the individual than it looks to be.

If competition is the lifeblood of trade, credit is the vital force which makes it flow. And this credit, created by the small transactions at the crossroads, gathering strength as it grows, is transmitted through local independent banks—converging and coalescing and finding rest in billion dollar banks in the centers of financial power, can, will, *must* be returned to the people, who never lose their ownership in it, *on demand*. But if these fundamental credits of the people are suffered to be gathered by agents of fountain-head banks remote from their source, and can be returned only at the *will and pleasure* of these institutions through their appointed servants or “managers,” then the people have surrendered their inherent credit-power to a master they no longer control.

And this, we say in all earnestness, is the difference between a natural system of free and independent unit banks, the “correspondent” system, and branch banking

with a few parent banks controlling a gigantic credit power they do not create. A bank, small or large, is local to its own demesne. It is realized that financial centers of industry, trade, and credit, receive a great part of their strength from the business integers at their doors—but it is not reasonable to believe that at any time in the future they will sacrifice these patrons to serve the patrons of their agencies, giving more than they receive. And so, whether under state or national supervision, what we call our “country banks” are vital to the issuance of that credit without which the enterprises of the people cannot permanently prosper or their energies function.

A MENACE TO FEDERAL RESERVE CONTROL ¹⁷

If we carry this idea to the extreme, it may be clearer. If all national banks merged until there were but one banking institution, it would utilize any inactive resources in various branches to meet the requirements from other sections. It would not be compelled to seek aid from the Federal reserve banks until all the resources outside the Federal reserve banks had been put to use. Today, there may be many banks quite able to extend credit while others are forced to seek Federal reserve aid because they have expanded more rapidly.

There is one additional aspect to the problem. It is a generally established principle that the larger the bank and the more diversified its interests, the smaller the proportion of its assets which must be kept in cash or some other readily liquid form. Therefore, mergers will in most cases, by increasing the size and extending the scope, release some funds which were necessary for each bank as individuals to hold as secondary reserves. Such funds can now be used as the basis for further credit extension.

¹⁷ From an article by Willard L. Throp, professor of economics, Amherst College, in the *American Bankers Association Journal*. p. 168-9. August, 1929.

The increased ability to utilize resources and to extend credit is a very important corollary of the merger movement. It is an offsetting factor in considering the possible future inadequacy of gold reserves.

An important implication with regard to the powers of the Federal Reserve Board arises from the previous discussion. Mergers will permit greater extension of credit by individual banks. But actual control by the Federal Reserve Board, disregarding the indirect controls of publicity and advice, does not exist until the member banks find it necessary to rediscount with the Federal reserve banks. If member banks are able to prolong the period of credit extension without Federal reserve assistance, they also to the same degree maintain their freedom from Federal reserve control.

But there is one further bearing which these mergers may have upon the authority of the Federal Reserve Board. Underlying the establishment of the Federal Reserve System in 1913 was the belief that, with some 20,000 banks in the country, an agency was needed to centralize banking policy. It should act for the general welfare in business and industry rather than for its own gain, and it presumably was created with the power to enforce its decisions. But the children who were so easily chaperoned at first have grown rapidly. The banks of the country have decreased in number and increased in resources. And the chaperone has been demonstrated not to be all-powerful. Its policies have been questioned and its ability to enforce them challenged. The continual growth of banking institutions increases the embarrassment of the board. Its position promises to become more and more difficult, particularly when it may chance to differ in policy with bankers whose individual salaries exceed those of the entire Federal Reserve Board, and with banks which are able to carry on their transactions without Federal reserve aid.

POSSIBLE CONTROL OF ELECTION OF
FEDERAL RESERVE BANK DIRECTORS BY
GROUP BANKS IN NINTH FEDERAL
RESERVE DISTRICT¹⁸

For purposes of election of Class A and class B directors of Federal reserve banks, member banks in each Federal reserve district are divided into three groups, each electoral group consisting as nearly as possible of banks of similar capitalization. Each group of banks is permitted to elect one class A and one class B director.

In the ninth Federal reserve district the electoral groups of member banks are as follows: Group 1 consists of banks having a capital and surplus of \$400,000 and over, Group 2 of banks having a capital and surplus of from \$60,000 to \$399,999, and Group 3 of banks having a capital and surplus of less than \$60,000. At the end of 1929, there were 683 member banks in the Minneapolis district, of which 30 were in group 1, 299 in Group 2, and 354 in Group 3.

The number of member banks in the ninth district belonging to the Northwest Bancorporation group and in the First Bank Stock Corporation group, together with the percentage of the number of banks in each of these groups to the total number of banks in each electoral group are shown [on the next page] :

It will be noted that the First Bank Stock Corporation and the Northwest Bancorporation together control 66.7 per cent of the member banks in Group 1, the group of largest banks, in the Minneapolis Federal reserve district; and it is manifest that acting together these two corporations could easily control the elections of class A and class B directors in this group by having the member banks which they own vote for a particular candidate. On the basis of their present holdings, therefore, these

¹⁸ Statement prepared by office of Comptroller of the Currency. *Hearings*, Op. cit. v. 1. pt. 2. p. 185-6.

MEMBER BANKS IN THE NINTH FEDERAL RESERVE
DISTRICT, BY ELECTORAL GROUPS, DECEMBER 31, 1929

	All member banks	Number of banks in—		
		Group 1	Group 2	Group 3
All member banks.....	683	30	299	354
First Bank Stock Corporation:				
Number	65	7	47	11
Per cent of total in group	9.5	23.3	15.7	3.1
Northwest Bancorporation:				
Number	55	¹ 13	30	12
Per cent of total in group	8.1	43.3	10.0	3.4
First Bank Stock Corporation and North- west Bancorporation combined:				
Number	120	20	77	23
Per cent of total in group.....	17.6	66.7	25.8	6.5

¹ Includes 1 bank which joined the group in January, 1930.

two corporations by their combined action would be able to place upon the board of directors of the Federal Reserve Bank of Minneapolis a class A director and a class B director from Group 1. Moreover, the First Bank Stock Corporation and the Northwest Bancorporation together control approximately 25 per cent of the banks in Group 2 in the Minneapolis district. While this number is, of course, not sufficient to control absolutely the elections of class A and class B directors in the district, it is obvious that by acting jointly, they could give to any specified candidate a large number of votes and with some additional votes from independent banks might bring about the election of the desired candidate. This would be more easily accomplished in an election where there were several candidates in the field, in which case control of a plurality of the votes might be sufficient to elect. Under some circumstances, therefore, on the basis of present stockholdings, the two corporations acting together might conceivably succeed in electing a class A

and a class B director from both Group 1 and Group 2 in the Minneapolis district, a total of four directors.

Acting separately, the Northwest Bancorporation, owning as it does, approximately 43 per cent of the member banks in Group 1, could probably control the election of class A and class B directors in that group in many cases, unless the opposition were united on one other candidate.

COULD NATIONAL BRANCH BANKING BE PROPERLY REGULATED?¹⁹

While the discussion of chain and branch banking has been going on, little, if anything, has been said by state or national bank supervisors about the problems which would naturally confront state and national banking departments in the event branch banking should become nationwide.

Without commenting on the merits of either system, it has occurred to me that a word from one who has had some experience as a supervisor of state banks, touching on the matter of proper examination of group or chain banks, might be of some interest to those who are giving serious thought to the question.

It is not a difficult task for a corps of experienced bank examiners to make an examination of a bank, no matter how large that bank may be, and the result for the most part is satisfactory, but when it comes to examining a group or chain of banks, all of which are owned or controlled by the same interests, a much different problem presents itself.

Until proved otherwise, it must be assumed that all bankers or banking organizations are honest and conduct their business along proper lines. But at the same time the first duty of supervising agencies is to the depositing

¹⁹ An article by Roy L. Bone, executive vice-president, Central National Bank, Topeka, Kansas, in the *American Bankers Association Journal*. p. 130+. August, 1929

public, and the examination of a bank or group of banks must be conducted in such a manner as to relieve the supervisor of any doubt as to the proper conduct of the managing officers of the bank or banks under examination. Furthermore, the examination should be made in such a manner that at its completion the supervisor would be convinced beyond doubt that the records reflected the true condition of the bank under examination, and that the business of each bank examined was being conducted in keeping with safe banking principles.

In my judgment, this result can be obtained only by simultaneous examination of all banks in the group or chain. It is true that the system of bookkeeping employed by group or chain banks is such that an examination of the parent bank should correctly reflect the condition of its branches, but should the supervising agency be satisfied with such an examination?

I do not believe the depositing public would be satisfied with such an examination, and I know I would not be satisfied with it if I had to take the responsibility for the examination.

The largest group or chain of banks we had to deal with during my administration of the Kansas Banking Department was a group of seven banks in southeastern Kansas owned and operated by the same interests. These were all comparatively small banks, and we were able to examine them simultaneously, but even at that it was difficult for us to keep up with the transactions passing between the various banks on account of the fact that the management was using questionable practices.

These banks were located in a mining country, and the directing head of the group of banks not only operated several mines himself but manufactured mining machinery. He sold this machinery to miners, some of whom were not financially responsible, took their notes in payment, and shifted the notes from one bank to another. He also manipulated a large amount of his personal paper through these banks, and even with the examination of

each bank made on the same day, it was difficult for us to cope with the situation. The result was that all seven of these banks closed on the same day.

The man who was responsible for the condition of these banks was prosecuted, convicted and sentenced to the penitentiary. He is now out on bond pending an appeal to the Supreme Court.

We had many similar experiences in other localities, but on a smaller scale, none of which proved as disastrous as the one just mentioned.

I do not mean to infer for a moment that there would be any more likelihood of crookedness in branch banking than in independent banking, but I believe crookedness in branch or group banking would prove much more disastrous than if it occurred in independent banks.

If branch or group banking should grow to such an extent that it would be impossible for either a state or national department to make an intelligent examination, it might, in my judgment, tend to encourage loose banking methods, the result of which would endanger the entire group or chain.

It occurs to me that it needs to be proved beyond doubt that the proposed national branch banking could be properly regulated. That Federal supervision is more efficient than state supervision is a common saying, and this may or may not be true. But be that as it may, it is a serious question in my mind whether any supervisory machinery, either state or national, could control or even regulate the gigantic banking system that nation-wide branch banking would set up.

BRANCH BANKING NOT A REMEDY FOR BANK FAILURES²⁰

However, there is no merit in the contention that branch banking would be an absolute protection against

²⁰ From an address before the State Bank Division of the American Bankers Association by R. S. Hecht, president, Hibernia Bank and Trust Co., New Orleans. Reprinted in the *Commercial and Financial Chronicle*. Sec. 2. p. 97-8. October 20, 1928.

such unsound banking and consequent failures. It is difficult to get separate statistics in the matter of failed unit banks and failed banks which operated branches, but it has been estimated that included in the number of banks which have failed in the past fifteen years there have been at least 45 institutions which did operate branches, and the chief cause for their trouble was just about the same as in the case of the small unit banks, namely, incompetent management, excessive credits and frozen loans. Over-expansion and unsound banking practices can occur under one system as well as under the other, and when failures do come in branch banks, losses are usually extremely heavy and the results on the communities affected correspondingly disastrous.

Australia had 28 banks in 1893, when as a result of crop failures and consequent bad economic conditions 13 of them, all with a large number of branches and with total assets of over \$400,000,000, had to close their doors. The resulting hardship and suffering were so great that a five-year moratorium had to be declared.

In South Africa, where branch banking has always flourished, a similar occurrence forced the government to come to the rescue of the big branch banks, and several European countries had almost identical experiences within the past ten years.

However, we have but to turn to the most frequently quoted example of successful branch banking, our neighbors in Canada, to find that unsatisfactory economic conditions and poor management will cause big branch institutions to fail as well as the small unit banks. The failure of the Home Bank, with 78 branches, and the practical failure and forced absorption of the Merchants Bank, with its 400 branches, both occurred within the same period covered by the American statistics previously quoted. And it is not so many years before when the Province of Quebec had to come to the rescue with a \$15,000,000 subscription to assist one of its large banks

to take over another crippled bank which had many branches.

It was on the occasion of the latest trouble in Canadian banking circles that the editor of the Toronto "Globe" asked editorially: "Are our banks too big either for safety or convenience?"

THE EFFECT OF BRANCH BANKING ON AGRICULTURE IN ENGLAND ²¹

Perhaps few people realize from what agriculture is suffering to-day. Is it not from the amalgamation of the big banks, and the position that they have taken up with the farming industry, namely, that of practically affording no financial assistance to farmers? What is the position of the tenant farmer to-day when he wants an overdraft? [The overdraft is an accepted English method of making loans.—Ed.] In the old days his landlord was, directly or indirectly, his banker, inasmuch as he, the landlord, was out to help his tenant. Who to-day takes his place? The local corn merchant, the manure merchant, and the coal merchant—all good people to whom the farmer has to mortgage his crops before they are harvested. What is again wanted is local banks with managers who know something of agriculture, and perhaps the farmer will come into his own again.

RESULTS OF BRANCH BANKING IN CANADA ²²

Last year I travelled over the Canadian grain belt from the West to East and last month from South to North. I was astounded that this vast agricultural em-

²¹ From a letter to *The London Times*. Quoted by Sykes, *The Amalgamation Movement in English Banking, 1825-1924*. p. 154.

²² From an address by M. P. Beebe, president, Bank of Ipswich, South Dakota, before the annual convention of the American Bankers Association, 1929. Reprinted in the *American Bankers Association Journal*. p. 358+. October, 1929.

pire is being farmed with implements made in the United States, and found American automobiles everywhere. Why is not Canada building its own farm machinery and automobiles and why is it not, generally speaking, the great industrial nation that we are today? The answer, in a measure, is very simple.

Years ago some man formulated an idea to build a certain machine. He went to his unit banker and not only received encouragement, but help. Out of this grew these industries of staggering wealth and volume of business, all due to the community interest. This could hardly be done under the Canadian system as it is too cumbersome and on its face, too conservative, but its record on the whole since 1904 shows that its conservatism apparently lies mostly in the managers of its banks. No matter how keen or clever a banker may be he does not get the perspective of his customers unless he has the environment. This is the strongest point of unit banking.

While on my recent visit to Canada I called on a bank in a town of about 1000 people. The manager's book of instructions contained 141 pages which did not include the supplements for thirteen years. This bank is located in an old, settled, farming community with farms well improved. Its deposits are \$400,000 of which \$300,000 was loaned to the parent bank in eastern Canada and \$100,000 in its banking territory.

I could not help but compare this town with one down in the states which has practically the same population and territory but not such good farming land and where crops are not so certain. This town has two banks with deposits of over \$1,200,000. Its territory is alive with hogs, cows and chickens. Every Saturday from one to five cars of live stock leave it, to say nothing of grain and long strings of cream cans. The banks stand willing to loan to their customers, whether or not they are land-owners, money to buy milk cows and hogs and to the

farmers' wives to buy baby chicks and better breeds of poultry. These two banks are using their deposits where they are made and are not sending them to financial centers to be loaned to industry at a low rate. Which system is best serving its community? I will leave it to you to answer.

BANKERS OR ROBOTS?²³

Most country banks are one-man banks, men who, from a banking standpoint, though perhaps not in organizing ability, are abler men than the men developing the multiple metropolitan banks.

Reduce this man to a managing clerk, take away from him his full authority and autonomy, give him his daily instructions and a complex set of rules to abide by and you will in time make of him a mere cog in a great machine, instead of an individualistic, resourceful American.

It is a melancholy experience to be thrown with men whose originality and initiative have been crushed out of them by the weight of authority. That is paternalism in its deadliest form.

The young man will not seek the branch-banking business, nor will those who are employed be tempted to remain memorizing a set of rules, with little opportunity to develop initiative, with no ambition left to become the president of a bank, but only a manager at a smaller salary. The honor and the stability of the job is gone, and local understudies will not be found.

Multiple banks naturally seek the best banks in the towns, and buys and control them. If they retrograde, the one man gone, and fail to pay, as many will, the bank will be closed. What then is left? Those banks not so

²³ From statement of Max B. Nahm, vice president, Citizens National Bank and Bowling Green Trust Co., Bowling Green, Ky. *Hearings. Op. cit. v. 2. pt. 12. p. 1669-70.*

good are left, and the result may be, if not disastrous, worse than it was before.

The country banker knows men and localities. The manager knows rules and collaterals. Within his special sphere of activity, the country man is just as keen as his city brother.

At best, the local manager can be only advisory and must refer back to the head office all great problems. Men of high type will leave this nature of employment and the substitute may be a robot, bound by rigid instruction, enforced in a mechanical way.

The enterprises of a town will interest a unit banker, and not appeal to a branch of a distant city. The one man has knowledge of the individuals, their character and ambitions, and sympathizes with their ideas of developing the city.

The other, being under foreign sway, can not enter into that intimate relation and would refuse such loans. It takes a high order of talent to estimate and make such a loan correctly, but on such decisions the growth of the country commercially has largely been predicated. Destroy the power and disposition to foster this growth and you have broken the main-spring of American resources. The history of many of our greatest enterprises began in such loans.

So, if we find that the unit system of banking has not broken down as a whole, but only in part, and only in definite sections, in only some small banks, in some small towns, is it not then worth while to protect, develop and foster the remaining unit banks?

Let us realize that unit banking is a profession, and that multiple banking is a large-sized business.

Let us adhere to unit banking and depart from it only so far as developments make it necessary to do so. Let us abandon it only to the extent that we must to eliminate its defects, and restore it to its former efficiency.

A GRAVE PRACTICAL DANGER ²⁴

The adoption of the proposed Federal legislation authorizing national banks to establish branches throughout great "trade areas" which may be as wide as the Federal Reserve districts or even, in certain cases, wider, would be like the firing of the starter's pistol at a race. It would initiate one of the fiercest competitive struggles the country has ever seen among the powerful banks in each of the districts for supremacy throughout the district. Many hasty and ill considered consolidations would be put through. Efficiency would suffer. A great readjustment in the relations of banks and business would be necessary. It would mean competitive bidding for the stocks of the banks which would be absorbed into the great branch-bank systems. It would mean an orgy of speculation in bank stocks. It would bring into play the vigorous activity of promoters, not necessarily bankers or men with capacity in bank administration, who would buy up or obtain options upon large numbers of banks with a view to selling them to the competing great banks.

Those of us who believe that the primary business of a banker is banking rather than bank-stock jobbing would not welcome a situation of this sort. Within recent months a great many conservative bankers have been saying that they would dislike very much a competition of this sort, that they hope it will not be forced upon them, but that if it is forced upon them, they will, of course, act to protect their positions. I should think that legislative restraint, rather than legislative encouragement, would be called for by tendencies like these.

²⁴ B. M. Anderson, economist of The Chase National Bank of New York, in *The Chase Economic Bulletin*, p. 14-5. May 8, 1930.

CHAIN BANKING AND THE BUSINESS OF INVESTMENT HOUSES²⁵

Discussions at Quebec, where the annual convention of the Investment Bankers' Association is in session, have developed an interesting side light upon what is called chain banking. "It is felt," says a correspondent, "that the chain banking system results in putting the average small bank into the investment business, cutting off a substantial volume of business from the investment houses, and raising competition for them. Among the smaller houses, especially, this tendency has been regarded as fraught with hazard to their future prosperity."

There is no doubt whatever that the present movement toward chain banking, and perhaps toward branch banking, is not altogether the outgrowth of banking necessity. Certainly it is true that in some parts of the country, where conditions have been rather bad, failures of the smaller banks have hurt the communities in which they were situated, and have made these communities turn toward branch banking. It would, however, have been a long time before the necessities of the small towns would have been deemed by the larger banks a sufficient reason for interesting themselves actively in the development of alternative banking facilities in communities which needed them. The bank or trust company which is active in issuing securities or which owns or controls an affiliated enterprise which is active in that connection, wants to control local banks or to establish branches of its own in the smaller places simply as a means of providing an outlet for the securities which it has on hand and must sell.

As is well known, the distribution of securities is effected in Great Britain through the agency of the banks and without the functioning of what in this country we

²⁵ An editorial from the *New York Journal of Commerce*. October 16, 1929.

call an investment house or bond house at all. The banks are able to reach the customer efficiently because of the widely extended branch banking system, and they are able to gain his confidence because he is in the habit of intrusting his deposits to them, and of having them carry on his other financial affairs. The result is that the advice which they give him with regard to the purchase of securities is very generally followed, while the bank, having the securities on hand for sale is able to make its advice practical by supplying what is needed. The result is that distribution is effected by a method which compares favorably with the plan followed in this country by sending traveling salesmen or opening branch offices with large overhead which are devoted entirely to the securities business. It is easy to see, then, why bankers who have studied English experience would like to adopt some phases of it in this country, and easy also to understand why investment houses, especially those of a smaller size, are inclined to oppose the project.

The public, of course, is not likely to feel very much sympathy with either side in this warfare between interests in the investment banking field. What it does realize when it thinks about the matter at all, of course, is that it is a bad thing for the community to have banking and securities selling confused with one another. The situation in England when carefully scrutinized is quite different from that proposed by the United States, inasmuch as the English bank usually has no interest whatever in the securities it sells except perhaps to get a commission on the sale. The plan which is being attempted for this country is to make the branch bank or chain bank a means of "mopping up" as much of the savings of the local community as it can, its success being judged more by its securities sales than by its loans and deposits. That this would be an unwholesome situation need not be doubted.

BRANCH BANKS NEEDLESS,
SAYS MANUFACTURER²⁶

BIG BANKERS OPPOSE BRANCHES

It is a mistake to assume that most bankers, or even most big bankers, are in favor of branch banking. New York interests, for example, have so long held practically a monopoly of the largest financing operations that they are likely to view with apprehension any move calculated to build up power elsewhere. Public expression made so far seems to indicate that bankers large and small throughout the country are divided in their opinions.

Branch banking in my opinion is primarily a problem for bank customers, rather than for banks. A bank, after all, is merely a service organization and any change which may reduce the availability or the equitable value of its service to business is distinctly a step backward. That is the kind of a step this country will not take. Unless there is a clearly visible gain to business through such an extension of banking facilities, the whole scheme should be discarded. If it is evident that disadvantage may accrue to any legitimate activities, the whole scheme must be discarded.

MANY OBJECTIONS EVIDENT

Many of the objections to branch banking are self-evident. The greatest efficiency of a normal human being placed in charge of a branch bank in a small city must lie in his ability to say 'No,' which is made easy for him by shifting of responsibility to the central bank when that course becomes the discreet one. Important loans must be passed upon by the central office; loans which are unimportant (to the bank, that is, not to the customer!), if decided by the local manager, must be de-

²⁶ Extracts from a bulletin issued by G. R. Meyercord, former president of the Illinois Manufacturers' Association, to members of the Association. Reprinted in the *Chicago Journal of Commerce*. Feb. 11, 1930.

cided wholly on a balance sheet and collateral basis, for the reason that he knows little of the local items of character and intangible values.

The local manager of a branch bank is destined never to know what he should know about those items, particularly if he is a good banker and an ambitious man, for whatever promotion he may work for and earn will move him on to a still newer post, where his 'Noes' may be still further developed. He cannot take root in the soil of any community. In his knowledge of local habits and personal equations he can never compete with the home-grown banker, who authorizes a loan to one because he personally knows it will be repaid, and to another because he has watched the constructive character of the borrower since boyhood.

MORGAN PLACED CHARACTER FIRST

"It should never be forgotten that one of the greatest of all bankers, J. P. Morgan, the elder, placed character above balance sheets as a guide to financial reliability."

Mr. Meyercord apprehends that if a national branch banking system were adopted in this country as in Canada, assuming that similar conditions would prevail under similar circumstances, every new community would find itself with several banks opened by the different larger banks. The losses sustained by these non-paying branch banks would have to be borne by customers elsewhere, which would mean the burden would fall upon business

Canada's experience, continued Mr. Meyercord, indicates that more banks are opened under the branch banking system than the country needs. The United States under such a system probably would have about 48,500 banks, nearly twice as many as it now has. Even now many of our banks in rural communities are not earning any return on the banking capital invested. Some are actually losing. It is not likely that one single additional branch bank would be profitable. There would be

an accumulation of losses sustained in the rural centers, which would be paid for by the manufacturing and trading industries in increased rates on their borrowings.

WOULD RESTRAIN COMPETITION

The vastness of the banks and their ramifications would inevitably restrain competition, particularly to the smaller manufacturer when he wished to create mortgages on his factory. The unrestricted competition now existing in the bond market would be almost entirely eliminated, as the banks all go into the bond and mortgage business.

Due to the very limited number of central banks, the effect would be that a manufacturer would have to consult his local branch bank manager and almost entirely depend upon him to place the bond issue. That, in the long run, would be certain to mean that a larger commission would be paid and a higher rate. The natural result would be that all other banks approached would send him back to his own banker. His credit would immediately be under a cloud if he attempted to get money elsewhere.

PETTY CHARGES WOULD RESULT

Probably many petty charges would creep into vogue, such as a check collection charge, the income from which would produce annually so vast a sum as to amount to more than is now lost by bank failures.

The banking system as it now stands is amply able to take care of all requirements of industry. The manufacturer has nothing to gain, all to lose, by the extension of branch banking.

INDEX

- Addis, Sir Charles, quoted, 53-4, 112
 Agriculture; aided by branch banking, 219-23; adversely affected by branch banking in England, 332
 American Bankers Association, 46
 Anderson, B. M., articles by, 125-30, 285-9, 336
- Bancohio Corporation, 105-6
 Bank examinations; by group banks, 194-5, 197; difficulty of examining branch and group banks, 51, 98-9, 111, 249-50, 266-7, 293-4, 328-30; easier in branch banking, 56; facilitated by multiple banking, 34-5, 243-5; more frequent and thorough examinations needed, 41. *See* Government supervision of banks
 Bank failures; can be prevented by multiple banking, 26-7, 90-5, 107-8; causes of, 38, 83-4, 125-8; in Australia, 42, 331; in Canada, 23, 27, 42, 119-20, 126, 286, 331-2; in Denmark, 286; in England, 27, 191; in Italy, 42, 126; in Japan, 126, 286, 288-9; in the United States, 42, 80-2, 108, 125-6, 148-51, 160-1, 256; losses by, 38, 82-3, 313; multiple banking not a remedy for, 38, 41-2, 250, 256-7, 330-2; not a reason for multiple banking, 285-6; overemphasis of, 38, 313; remedies for, 85-90 128-30, 171; social effects of, 82-3
 Bank of Italy; does not rediscount at Federal reserve bank, 52-3; state-wide trust services of, 241-3
 Bank stock; multiple banking increases value of, 33, 105-6, 174, 206, introduces speculative element into, 50, 250-1, 278, 336
 Bankers Magazine, opposed to multiple banking, 47
 Bankers Trust Co. of Atlanta, failure of, 285
 Banks of the United States, First and Second, branches of, 100, 131
 Banque Industrielle de Chine, failure of, 286
 Beebe, M. P., article by, 332-4
 Bone, R. L., article by, 328-30
 Branch banking; advantages of, 26-36, 54-7, 107-9, 113-14, 115-16, 172-5, 184-91, 201; an aid to agriculture, 219-23; defined, 15-16; county-wide, 46, 120, 222-3; federal legislation on, 17-18, 100-3, 130-5; objections to, 42-54, 109-13, 116-20, 176-81, 339-41; social importance of, 289-94; state legislation on, 19-20, 141-2, 157; statistics of, 20, 99-100, 141-5, 155-6; rural branches, 143; within home city, 142. *See* Bank failures, Centralization, Group banking, Unit banking
 Breckenridge, R. M., article by, 181-91
 British Isles, branch banking in, 121-2. *See* England
 Business cycle, accentuated by multiple banking, 45, 288-9
 Business practises, improved by multiple banking, 30-1, 188, 196-7, 205, 237
- California; branch banking in, 289, 293-4; group banking in, 113, 138-9, 144
 Canada; advantages of Canadian banking system, 181-8, 227-35; bank failures in, 23, 27, 42, 119-20, 126, 286, 331-2; deadening effects of multiple banking in, 45, 110, 315, 332-4; discussion of branch banking in, 114-20; government examination of banks not necessary in, 34; number of banks and branches in, 47, 121; training of bankers in, 27, 231-4
 Capital; of banks of the United States, 80, 86-7; large capital requirement not a remedy for bank failures, 85-7; requirements of many states too low, 128-9
 Capital loans, not extended by branch banks, 291-3
 Central credit file, maintained by group banks, 196
 Central purchasing bureau, maintained by group banks, 196
 Centralization of banking power, 47-9, 110-11, 116-17, 178-9, 252, 256, 288-9
 Chain banking, definitions of, 12, 16, 97, 200-1. *See* Branch banking; Group banking; Multiple banking
 Chain stores, have deprived small local banks of business, 25, 109
 Clearing and collection of checks, facilitated by branch banking, 189
 Cleveland Trust Co., 212-17
 Clough, E. T., quoted, 201-2

- Commercial and Financial Chronicle, opposed to multiple banking, 47, 318-20, 321-4
- Community development; best promoted by unit banks, 42-5, 118, 254-6, 268-70; properly cared for by branch banks, 28-30, 178, 185-6, 190-1, 203, 205-6, 211-12, 215-17, 240, 306-11
- Competition between banks, increased by multiple banking, 31, 107, 116-17, 119, 294, 341
- Correspondent relations between banks; not a protection for country bankers, 239; not a remedy for bank failures, 87-9; provides diversification for unit banks, 127-8, 287; provides mobility of bank funds, 39; preferable to multiple banking, 38-40, 278-85, 286-7; services rendered by correspondent banks, 39-40
- Cost of operation; increased by bank amalgamations, 107; less in branch banks, 54-5; not reduced by branch banking, 119; reduced by multiple banking, 33-4, 189-90
- Country banks, opposed to branch banking, 174; weaknesses of, 79ff., 107-8, 160-1, 168-71; strengthened by group banking, 164. *See* Bank failures; Branch banking; Group banking
- Credit policy of banks; improved by multiple banking, 28; standardized in branch banking, 45-6, 116
- Curtis, J. G., article by, 237-40
- Davinson, G. W., article by, 272-85; opposed to multiple banking, 239
- Dawes, Charles G., recommends rural branch banking, 119, 222-3
- Dawes, Henry, article by, 249-72; opposed to multiple banking, 239; quoted, 47, 49
- Decentralization of banking power, secured by multiple banking, 31-2, 93-5, 131-2, 203, 238-9, 247-8. *See* Centralization
- Decker, E. W., testimony of, 247-8
- Denmark, failure of branch bank in, 286
- Depositors; losses of, because of bank failures, 38; protection given by multiple banking to, 53, 58, 113-14; protection of, the prime consideration, 89-92
- Diversification of loans; not provided by unit banks, 169; provided by branch and group banks, 26, 165-6, 173, 186-7, 188-9, 221; provided by unit banks, 127-8, 287
- Double liability of bank stock; more enforceable under group banking, 197-9; group banking may nullify value of, 113-14
- Dunbar, C. F., favored branch banking, 222
- Employees of banks; multiple banking benefits, 26-7, 33, 169, 174, 182, 191, 204, 231-3, 245-7; multiple banking does not benefit, 49-50, 116-17, 118-19, 297-8, 334-5
- England: Bank of, 36, 53-4, 112-13; bank profits reduced by amalgamations, 106-7; banking system of, not acceptable to Americans, 275-6; effect of amalgamations on agriculture in, 332; examination of banks by government not necessary in, 34; merits of banking system, 188-91; number of banks and branches in, 47, 121-2; undesirable effects of bank amalgamations in, 294-8
- Expenses. *See* Cost of operation
- Federal Reserve Board, ruling on branch banks, 101-2
- Federal Reserve System; aided by multiple banking, 35-6; control of, by multiple banks, 51-2, 326-7; multiple banks lessen effectiveness of, 51-4, 111-13, 259-68, 321-5; renders multiple banking unnecessary, 38-9; right of state member banks to possess branches, 19, 101-2, 134-5
- First Bank Stock Corporation, 207-12
- First Citizens Trust Co., of Columbus, Ohio, 106
- First National Bank in St. Louis, v. State of Missouri, 131
- Flexibility, branch banking has lack of, 45-6, 288-9, 296-7
- Foreign trade; unit banks can not meet needs of, 24-5; best financed by branch banks, 229-30
- French banking system, 47, 122-3, 276
- German banking system, 47, 122, 276
- Giannini, A. P., testimony of, 245-7, 248
- Government supervision of banks; aided by multiple banking, 34-5, 243-5; branch banking increases need of, 95-6, 165; group banking increases difficulty of, 92-3, 249-50. *See* Bank examinations
- Group banking; advantages of, 26-36, 57-9, 107-9, 113, 201-6, 223-7, 235-7; causes of, 103-7, 163, 192, 199; defined, 16, 97, 138, 200; description of, 163; early development of, 124; failures in, 126-48; inferior to branch banking, 54-7, 163-4; list of leading bank groups, 153-4; method of acquiring control of banks, 217-18; not a solution for bank fail-

- ures, 250, 256-7; opposition of New York and Chicago bankers to, 238-40; objections to, 42-57, 109-13, 163-4, 237-40; organization and operation of Marine Midland Corporation, 192-206; of First Bank Stock Corporation, 207-12; preliminary to branch banking, 174-5; state legislation relating to, 140-1; statistics of, 20-1, 136-9, 144-7, 152-4, 163. *See* Branch banking; Unit banking
- Guarantee of bank deposits, not a remedy for bank failures, 85, 161, 171
- Guardian Detroit Union Group (Inc), 48
- Harr, L. A., articles by, 188-91
- Harvey, A. S., quoted, 294
- Hazlewood, C. B., article by, 314-15
- Hecht, R. S., articles by, 135-41, 330-2; quoted, 285-6
- Hendrix, Clyde, article by, 219-23
- Holding company; early development of, in banking, 124, in experimental stage in banking, 320. *See* Group banking
- Home Bank of Canada, failure of, 42, 119, 286
- Illinois Bankers Association, survey of multiple banking by, 47
- Indiana, State Bank of, 100
- Interest rates, multiple banking provides uniformity and stability of, 28, 185
- Investment banks; multiple banking threatens existence of, 48, 337-8
- Investment policies of banks, improved by multiple banking, 34, 195-6, 225
- Japan; branch banks in, 46, 47, 123-4; failure of branch banks in, 126, 286, 288-9
- Large borrowers, can be properly cared for by unit banks, 37-8, 39-40, 321; can not be properly cared for by unit banks, 24, 183, 192
- Large scale business, unit banks can not meet needs of, 24-5, 79ff., 170-1, 192, 199, 237-8
- Lloyds Bank of London, 107
- London City and Midland Bank, 107
- Management of banks, improved management as a remedy for failures, 89-90; improved by multiple banking, 26-8, 181-2, 187-8, 191, 204, 232, 235-7; proper management difficult to secure by small banks, 168-9
- Marine Midland Corporation, 192-206
- McFadden Act, 10, 27, 102-3, 132-5
- Merchants Bank of Canada, failure of, 42, 119, 286
- Miller, J. H., article by, 227-35
- Miller, M. D., article by, 306-11
- Mobility of bank funds, increased by branch banking, 27-9, 176 ff., 194-5, 204, 210-11, 228-9; provided by correspondent banking, 39, 287; provided by Federal reserve banks, 39, 291
- Monopoly, multiple banking creates, 257-8, 268-9, 289-94; not monopolistic, 240-1. *See* Centralization; Decentralization
- Multiple banking, definition of, 15; issues involved in, 21-2. *See* Branch banking; Chain banking; Group banking
- Murphy, C. D., article by, 317-18
- Nahm, M. B., article by, 334-5
- National banks; branch banking privileges of, 17-18, 100-2, 130, 131-5, 272; decline in relative importance of, 101-3; number of branches of, 101-3
- Neill, C. E., quoted, 229
- Neville, J. E., article by, 223-7
- Northwest Bancorporation, 103, 217-18, 223-7
- Novins, J. K., article by, 241-3
- Ohio, State Bank of, 100
- Ottley, J. K., quoted, 57
- Platt, Edmund, proposals for county-wide branch banking, 129, 222-3
- Pole, J. W., address by, 159-67; quoted, 16, 55, 113; statement of, 77-99; testimony of, 213-14
- Profits of banks; increased by multiple banking, 33; reduced by multiple banking, 50, 297; small in many banks, 23-4, 159-60
- Rand, G. F., article by, 192-206
- Real estate loans, 213, 308-9
- Reserves, group banking makes possible dangerous interdepositing of, 56
- Rural districts, effects of branch banking on. *See* Community development
- Selder, W. D., article by, 311
- Shull, C. G., article by, 313-14
- Small borrowers; not accommodated by branch banks, 43, 110, 269-70, 290-1, 296, 298-311, 318-20; properly cared for by branch banks, 180, 214
- Small towns, effect of branch banking on. *See* Community development
- Speculation. *See* Bank stock
- Supervision of banks. *See* Government supervision of banks

- Sykes, Joseph, articles by, 106-7, 294-8, 321; quoted, 54, 112-13
- Throp, W. L., articles by, 315-17, 324-5
- Trade area, proposal of J. W. Pole to permit branch banking within, 92-3, 164-7
- Transamerica Corporation, 48, 105, 124
- Troxell, E. E., article by, 298-306
- Trust departments of group banks, 196, 224, 241-3
- Unit banking; adapted to present needs, 37-8; arguments for, 36-54; defense of, 249-72, 313-14; defined, 15; has not broken down, 313-14; inherently unsound, 25-6; merits of, 285-9, 311-12; needed improvements in, 40-1; not adapted to present economic conditions, 24-5, 79 ff., 170-1, 192, 199, 237-8; preferable to branch banking, 314-15; preferred by business men, 317-18; a proven success, 36-7. *See* Bank failures; Branch banking; Group banking
- Westerfield, R. B., article by, 176-81
- Whipple, Howard, article by, 289-94
- Willit, Virgil, articles by, 99-114
- Wisconsin, statement by Commissioner of Banking of, 124
- Young, R. A., articles by, 240-1, 244-5

DATE DUE

MAR 5 1974

GAYLORD

PRINTED IN U.S.A

HG2481 Willit
W55

Chain, group and branch
grouping

